PN-ACF-808
102424

UKRAINE LOCAL ELECTRIC COMPANIES
DRAFT BUSINESS PLAN
(TASK C.2)

NIS Institutional Based Services Under the Energy Efficiency and Market Reform Project
Contract No CCN-Q-00-93-00152-00

Ukraine Power Sector Reform
Delivery Order No 18

Final Report

Prepared for

U S Agency for International Development
Bureau for Europe and NIS
Office of Environment, Energy and Urban Development
Energy and Infrastructure Division

Prepared by

Hagler Bailly
1530 Wilson Boulevard
Suite 400
Arlington, VA 22209-2406
(703) 351-0300

September 11, 1998

CONTENTS

Executive Summary

S.1 Task Description

The work on this task was initiated under Delivery Order 18 of the Ukrainian Power Sector Reform Project The Scope of Work for these activities included the specific Local Electric Companies (LECs)-Task III C 2 which states

Provide guidance in preparation of a Corporate Business Plan

(1) Provide guidance in preparation of a Corporate Business Plan

(2) Draft initial Plan in support of privatization

S.2 Methodology and Approach

In support of the efforts of Government of Ukraine to privatize the Oblenergos of Ukraine USAID set the task of creating sample "western style" business plans for two LECs
It was determined that these two Oblenergos would participate in the creation of a multiple year business plan following western standards of preparation The two LECs chosen were
Vinnitsa Oblenergo
Khmelnitskiy Oblenergo

The plans for generating business plans for each LEC differed at the request of the respective General Directors Therefore, the methodology and approach differed at each location

Vinnitsa Oblenergo

At Vinnitsa we presented them with the outline, beginning documentation and a sample business plan They chose to hire a Ukrainian consultant to prepare an in-depth business plan based on our examples and their consultants input

Khmelnitskiy Oblenergo

At Khmelnitskiy we agreed to work with the Oblenergo staff to produce a draft business plan that they would then review and work to completion on their own

S.3 Summary of Results

At both Oblenergos the draft process is complete However, in both cases the lack of International Accounting Standard Reporting limits the value of the financial statements and the future income estimates Both drafts are currently under review at the respective Oblenergo

APPENDIX A
KHMELNITSKOBLENERGO
DRAFT BUSINESS PLAN

11-A Khranovsky St
Khmelnitsky
280016, Ukraine
Telephone 03822-2-33-24
Contact Olexander Leonidovych Shpak

Khmelnytskoblenergo

State-Owned Joint-Stock Power Supply Company

Business Plan

Draft

Note All financial statements are estimates and must await completion of restatement of accounts under International Accounting Standards before accurate financial documents can be produced

Table of Contents

Appendix B	Percent of total debt and total energy usage by customer classification as of August 1 1998
Appendix C	5-Year income statement
Appendix D	5-Year balance sheet
Appendix E	Balance sheet Assets and equity
	Cash budget activity - 5 year
Appendix F	5-Year cash budget
Appendix G	Cash Budget for 1998

Khmelnytskoblenergo Business Plan

Executive Summary

Khmelnytskoblenergois one of the energy-supplying companies in Central Ukraine the successor of former Association Vinnitsaenergo SEJSC Khmelnytskoblenergo is one of 27 energy-supplying companies of Ukraine The Company's staff comprises 3024 employees of which 2966 are directly engaged in delivering energy services The company produces some of it's own electric energy at five different power stations with a total installed capacity of 8 4 MW
Transmission and supply of electric energy is carried out by electric networks with voltages from 0 22-110 kV
Electric networks of the Company cover the whole territory of Kmelnytskiy Oblast on 34,431 kilometers of aerial lines

Company / Business Summary

The company operates in the business of electric energy production (license BP [1] 0027 issued by National commission on regulation of electric energy of Ukraine) Electric energy transmission to local electric networks (license PS [1] 009 issued by National commission on regulation of electric energy of Ukraine) And the business activity of supplying electric energy at fixed tariffs (license PR [1] 009 issued by National commission on regulation of electric energy of Ukraine)

In addition to the primary business activities of the company they also provide a wide variety of services to consumers

- Technical support for linking up to electric networks
- Technical service and overhaul of power plants and systems

Type of Business

Khmelnytskoblenergo, is a generator and distributor of electricity Khmelnytskoblenergo has been operating in this capacity since 1995 founded according to the Decree of the President of Ukraine No 282 dated April 4, 1995

Company / Business Summary

Founded in 1995 by Presidential Decree, Khmelnytskoblenergo has dealt with the dramatic changes in the Ukraine electric industry by hiring new leadership talent, finding innovative ways to use its meager resources and making good use of foreign consultants provided by different foreign aid donors The initial progress towards profitability has been slow and difficult due mostly to lack of government support and a true market based tariff system that provides for an adequate return on investment
However, the company has recently brought in Olexander Leonidovysch Shpak as General Director to lead the business into the next century In its third year of operation Khmelnytskoblenergo is on the verge of dramatic change and improvement as envisioned and led by Mr Shpak and his staff

While there is still much that must be done at the national level to improve the situation in the energy sector there are actions that Mr Shpak and the staff of Khmelnytskoblenergo have taken or plan on taking to improve their overall financial position and viability even in this most difficult of times

Financial Objectives

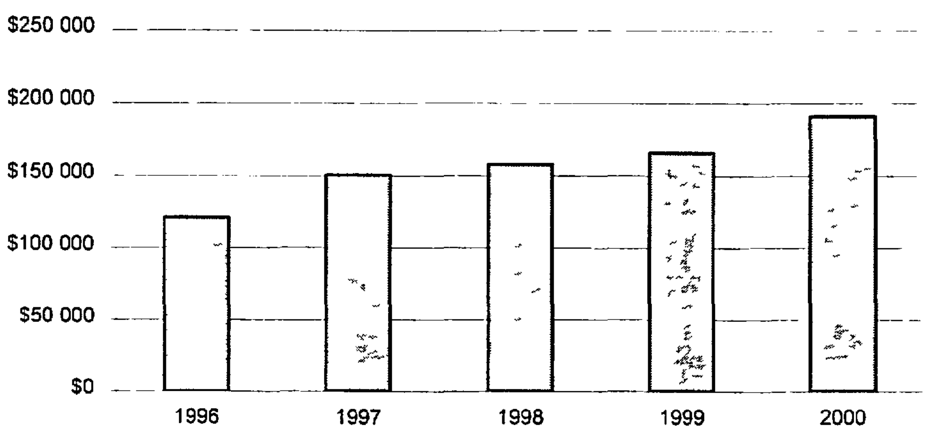
Until now, Khmelnytskoblenergo has funded all of its costs and capital expenditures internally The company is now poised to improve cash flow and post profitability gains over the next several years as is demonstrated by the following chart The company is confident that these numbers can be accomplished based on its future action plans, seasoned management and perhaps most importantly its willingness to make the difficult choices necessary to become a profitable and viable energy distributor by international standards

2 Year Actual Sales And 3 Year Forecast

(all numbers in 000s UAH)

	1996	1997	1998	1999	2000
Electricity Sales	121 531	150 743	158,280	166 194	191,123
Total Sales	121,531	150,743	158,280	166,194	191,123

(all numbers in 000s UAH)



Management Overview

Khmelnytskoblenergo has had very stable management over the past 3 years and the owner has assembled a seasoned team of professional managers Two of the key leaders, the General Director and the Deputy Director of Economics and Finance, have excellent track records with Mr Shpak the General Director coming from outside the electric utility industry

While the current organization is a legacy from the initial founding in 1995 a better structured organization designed to meet looming commitments and staying within budgets is currently on the drawing boards The company is working to make this change without substantially altering the loyal culture that makes Khmelnytskoblenergo viable in spite of numerous and very high obstacles

Product / Service and Competition

Khmelnytskoblenergo is in the business of supplying electricity to a wide range of customers throughout Khmelnytsky Oblast It is this varying array of customer types that must be served effectively and efficiently that places Khmelnytskoblenergo in a unique and favored market position Because Khmelnytskoblenergo has years of experience in serving this area it has developed a great deal knowledge about each customer type [residential, commercial, industrial, agricultural] and their different needs and requirements This knowledge allows the company to decide today how to best use its limited resources

Traditionally competition in the electric distribution market was nonexistent Customers were tied to one Oblenergo that served all their electric energy needs Services were provided, bills rendered and payments by customers were made in cash to the Oblenergo However, since 1995 the company has operated in an entirely new cash distressed and competitive environment

Since the founding of independent Ukraine cash available to pay for goods and services is in limited supply Many industrial customers are bankrupt or survive purely on barter schemes to pay employees or debts State and Local budgets that take a large percentage of energy delivered by Khmelnytskoblenergo rarely, if ever, pay cash This "cash poor" situation is not unique to Khmelnytskoblenergo but is pandemic in Ukraine This lack of cash in the economic system would not normally be considered a competitive issue However, Khmelnytskoblenergo chooses to view it as such The company believes that it is in competition with other companies for the limited cash that their customers have to pay debts for services rendered By viewing this as a competitive situation rather than merely a Ukrainian wide economic problem Khmelnytskoblenergo brings possible solutions within its reach

With the advent of the Energomarket came other licensed energy suppliers to compete locally for the largest customers Known as IESs (Independent Energy Suppliers) these entities licensed by the National Energy Regulatory Commission, are allowed to operate anywhere in Ukraine and serve any customer willing to do business with them The cost of energy supplied by these IESs us usually lower than that supplied by the Oblenergo The IES has a further advantage in that it can pick and choose which customers to serve This usually means that the IES will only serve those industrial customers that can afford to pay cash for the energy delivered This effectively takes away healthy, cash paying customers from the Oblenergo

This market reality would not normally be a problem because the Oblenergo is compensated by the IES for use of its lines to transport the electricity sold to the customer In effect, the Oblenergo is "made whole" as the actual cost of energy is merely a pass-through cost in any case Any profit on the sale of energy to a customer is in the use of their equipment or lines and not on the energy delivered However, under current market conditions this described IES serving customers does not render the Oblenergo "whole" in any sense By losing a potential cash paying customer the Oblenergo's monthly cash flow is reduced by the amount of this customers bill In addition the IES rarely pays for the transit fees in full in cash At least some if not all the fees are paid in energy While this reduces the debt the Oblenergo has with the Energomarket it does not help or improve their overall cash flow

Khmelnytskoblenergo has analyzed, planned and initiated steps to deal with their two main competitive forces These are

- Assigned a specific person at Khmelnytskoblenergo to work closely with the IESs to insure greater cash payments for transit fees incurred
- Assigned a specific person at Khmelnytskoblenergo to work closely with the IESs to improve past debt payments for transit fees incurred
- Established a Special Collections Group with assigned customer targets for cash collections
- In cooperation with the Local Oblast Administration set cash collection targets for the Regional Oblast Administrations for energy consumed in their region

Exit

Khmelnytskoblenergo's management team is committed to the growth and improvement plan as outlined in this document By focusing on the key issues of increasing cash collections and reducing losses Khmelnytskoblenergo believes that it will become one of the top performing Oblenergos in Ukraine Mr Shpak is committed to taking the company to this new level of success and performance before the end of the five year period Based on the projected plan that Khmelnytskoblenergo's management has assembled and are committed to, the company forecasts an increased valuation of XXX million dollars in the year 2000

Company Business

Identification of Market Opportunity

Khmelnytskoblenergo estimates that the overall market for the use of electricity in its service area will grow at about 5% annually until the year 2000 when usage will increase at about 15% While the Ukrainian economy is currently in decline the management is confident that this will begin to turn around in 1999 with increased growth in the year 2000 In addition, Khmelnytskoblenergo's management is confident that it will be able to increase its cash flow and thereby its profits over the next five years

Khmelnytskoblenergo'sproducts and services are necessary for the life and livelihood of the 1 5 million inhabitants of the area the company serves The Khmelnytskoblenergoline of energy related products and services are specifically designed to meet the needs of the customer In addition to the technical aspects of serving customers the company has designed into its operation different ways of "interfacing" with different customer groups Sales contact, customer services and billing are different for each customer group

Khmelnytskoblenergois also working to capitalize on the single biggest market issue in the past decade General Director Shpak and his management team clearly see the current and future need for energy suppliers to fully understand their largest customers This means becoming experts in the industries they serve This approach not only improves Khmelnytskoblenergo'sability to collect cash for services rendered but also places them in the forefront of emerging industrial market issues This unique combined position of service to and knowledge of the customer is a key strategy for the company as it approaches the new millennia

This fiscal year represents a crossroads for Khmelnytskoblenergo in three respects

- It is under the leadership of a new General Director and therefore has the ability to make many dramatic internal changes that would not otherwise be available
- The lack of cash collections is a major issue in the entire Ukrainian energy sector and will come to some sort of resolution within the next year
- Its new management structure is now geared to exploit these opportunities

In the first quarter of this year, Khmelnytskoblenergo began to focus its entire operation on two key objectives

- Increasing cash collections
- Reducing losses (technical and commercial)

Since that time cash collections have risen approximately 50% and losses have been reduced from 13% of total sales to 10%

Busıness Hıstory
Founded by Presıdentıal Decree ın Aprıl of 1995 as an open joınt stock company, Khmelnytskoblenergo has enjoyed good growth ın energy sales even ın a declınıng economy The ınıtıal growth was fueled by the need to ıncrease Ukraınıan ındustrıal and agrıcultural output After the ınıtıal growth ın sales there was a slıght declıne whıle the ındustrıal and agrıcultural markets restructured Closıng unprofitable or ınefficıent enterprıses The busıness ıs ın ıts thırd year of operatıon as a joınt stock company and ıs on the verge of a major changes to meet the future demand for product sales ın both ındustrıal and agrıcultural markets

At the begınnıng of 1998, the new General Dırector, A Shpak created a strategy and a clımate for change that helped to focus the Oblenergo on the key ıssues facıng ıt today and workıng to posıtıon ıtself for the needs of tomorrow

- The first part of the strategy ınvolved a dramatıc ıncrease ın the ınternal communıcatıons between the General Dırector and the Deputy Dırectors, PEM, REM and Department Managers Thıs communıcatıon had two key elements
- Transfer and communıcatıon of more knowledge of the company financıal posıtıon
- Transfer and communıcatıon of what should be done and could be done to ımprove the sıtuatıon

The second part of the strategy requıred more dırect and dramatıc actıons These were

- Establıshment of a Specıal Collectıons Group wıth a full tıme Department Head Group ıs responsıble (wıth support from REM personnel) for focused collectıon efforts on major debtors and energy users
- Aggressıve program ın rural areas to ıncrease Resıdentıal cash payments by postıng lısts of non-payers ın publıc places (banks, post offices, etc)
- Daıly trackıng of total number of customers dısconnected
- Establıshment of monthly cash collectıon targets by REM Settıng of <u>total</u> collectıon (cash, barter, offsets, etc) targets of 100%
- Daıly trackıng of all collectıons, ıncludıng cash, at the REM level rolled up to the Headquarters and reported to the General Dırector
- Daıly trackıng and reportıng of all cash paıd by Resıdentıal customers
- Monthly trackıng at the Headquarters level of payments and debts for all large/medıum debtors and/or energy users, a total of approxımately 200 accounts
- Monthly revıew of energy consumptıon by State and Local budget customers

12

tracking usage levels against their budgeted amounts

- In cooperation with the Khmelnitskiy Oblast Administration, Regional State Administrations (20 in total) are set cash collection targets for electricity consumption within their area These established cash targets (recommended by the Oblenergo) match those Oblenergo assigned the REM Managers The Oblenergo reports results weekly to the Oblast Governor
- Establishment of company wide cash incentive program based on set monthly goals that include cash and total collections Top three REMs receive awards the Managers of the three REMs ranked at the bottom are called to the Headquarters for a review of their performance and possible demotion or termination
- Weekly conference call between Oblenergo General Director, Deputy Directors, REM Managers and the Head of the Special Collections Group that includes a standing agenda item on the results of cash collections and what is being done to improve performance

Growth and Financial Objectives
Khmelnytskoblenergo=s5 year plan projects 5% growth in sales for 1998 and 1999 with a 15% growth in sales between 1999 and 2000 Company management believe that this forecast has substantial upside opportunities With the introduction of a new organization structure to be completed by the middle of 1999, the company expects to expand its cash collections to existing customers while taking advantage of the forecasted improved industrial and agricultural markets As these industries continue to improve their viability and profitability the company will be well positioned to improve its own efficiency and there by reap larger profits from its expanding customer base

The details of the sales forecast are as follows

Sales Forecast
2 Year Actual - 3 Year Estimate

(000s UAH)

	1996	1997	1998	1999	2000
Industrial Sector	23 092	28 710	30 146	31 653	36 401
Agricultural Sector	17 014	21 097	22 152	23 260	26 749
Residential Sector	32 813	40 688	42 722	44 858	51 587
Government Sector	13 368	16 576	17 405	18 275	21 016
Other Including Losses	35 244	43 703	45 888	48 182	55 409
Total Sales	121 531	150 774	158 313	166 228	191 162

Other Khmelnytskoblenergo financial objectives include

- Attracting Strategic Financial Investor(s)
- Debt / Equity of no more than 87%
- Average collection period of no more than 60 days

These key ratios and many others are shown below

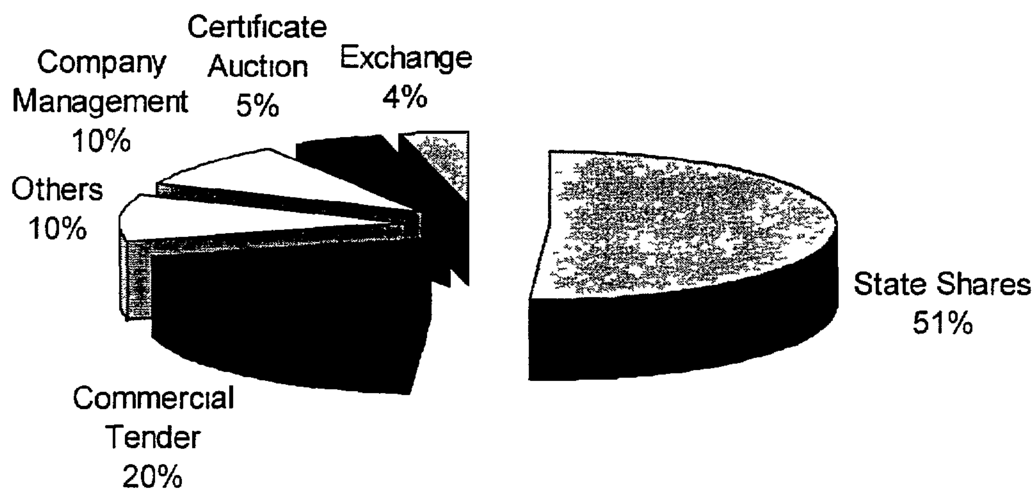
Financial Highlights

	1996	1997	1998	1999	2000
Liquidity					
Current Ratio	1 02	0 88	-3 08	-3 95	-4 57
Acid-Test Ratio	0 95	0 56	-3 43	-4 35	-5 01
Leverage					
Debt Ratio	81 31%	81 67%	54 54%	56 27%	47 26%
Debt/Equity Ratio	435 08%	445 48%	119 95%	128 68%	89 60%
Times Interest Earned	#N/A	#N/A	#N/A	#N/A	#N/A
Profitability					
Gross Margin	15 52%	12 81%	12 81%	14 47%	19 68%
Return on Assets	2 42%	-1 12%	-11 05%	-8 39%	11 94%
Return on Equity	12 92%	-6 12%	-24 31%	-19 20%	22 64%

Legal Structure and Ownership

Khmelnytskoblenergo is a State Joint Stock Company Privatization is carried out according to the Share Allocation Plan approved by the State Property Fund Order #1060 as of January 1, 1997 with changes introduced by the SPF Order #486 as of March 13, 1997 The State holds 51% of the shares with the remainder sold or allocated to be sold to in the following distribution scheme

Share Allocation Plan



15

Company Location and Facilities

Khmelnytskoblenergo's operations are in the Khmelnytskiy Oblast, which is situated on the border of Central and Western Ukraine The Oblenergo's headquarters are located in the town of Khmelnytskiy, which is in the center of the Oblast territory

Khmelnytskoblenergo serves its customers over approximately 34,431 kilometers of distribution and transmission lines These lines serve 168 substations of which 148 are primarily used to serve rural and agricultural customers

Organization

Most of Khmelnytskoblenergo's management team has been with the company for many years and all but Mr Shpak have been with the company since 1995 All have an intense interest in seeing Khmelnytskoblenergo becoming viable and profitable in the coming years

Management Team

Below is a summary of Khmelnytskoblenergo's management team's background and experience

Olexander Leonidovysch Shpak, 47 (General Director) Graduate of Lviv Politechnical Institute in 1974 General Director since 2/1098

Nikolay Kuninets, 53 (Deputy Director of Energy Sales) Graduate of Vinnytsya Politechnical Institute in 1978 Joined Khmelnytskoblenergo in 1995 and has held his current position since joining the company

Sergey Irkhin, 37 (Deputy Director of Economics) Graduate Vinnytsya Politechnical Institute in 1984 Joined Khmelnytskoblenergo in 1995 and took over his present position in March of 1998

Valery Vasylyovych Ivakha, 45 (Chief Engineer) Graduate Vinnytsya Politechnical Institute in 1980 Joined Khmelnytskoblenergo in 1995 and has held his current position since joining the company

Yuriy Vasylyovych Guly, 52 (Deputy Director of Labor Safety) Graduate Vinnytsya Politechnical Institute in 1980 Joined Khmelnytskoblenergo in 1995 and has held his current position since joining the company

Alexandr Dytyuk, 61 (Deputy Director of HR and Social Issues) Graduate Vinnytsya Politechnical Institute in 1984 Joined Khmelnytskoblenergo in 1995 and has held his current position since December of 1997

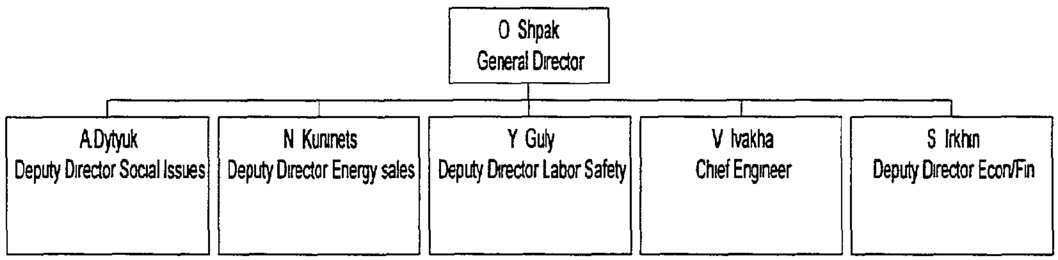


Figure 1 Khmelnytskoblenergo 1996 Organization

Other Key Employees

There are two key employees who are not members of the senior management team

- Igor Yakovych Karpovych 30 (Director of Planning) Graduate of Khmelnytskiy Technological Institute in 1994 Joined Khmelnytskoblenergo in 1995 and has served in his current position since June of 1998

- Borys Vasylyovych Kravits, 52 (Head of Special Collections Group) Graduate of Lviv Politechnical Institute in 1972 Joined Khmelnytskoblenergo in February of 1998 in his current position

Both Mr Karpovych and Mr Kravits are participating in a senior management / key person meetings and are considered to be important to the success of the plans outlined in this plan

17

Principal Stockholders

According to the Share Allocation Plan Khmelnytskoblenergo began with a Statutory Fund (Share Capital) amount of 33,637,800 UAH Shares were then issued at a par value of 10 UAH The amount of shares available for distribution was 3,363,780

The preferential sale of shares had to consist of 5% to be sold to management of Khmelnytskoblenergo for cash Five (5%) percent to Khmelnytskoblenergo management for privatization certificates and 10% to persons entitled to participate in this process

These individuals include approximately 800 employees of the Nuclear Power Plant and 400 representatives of Minenergo institutions not subject to privatization

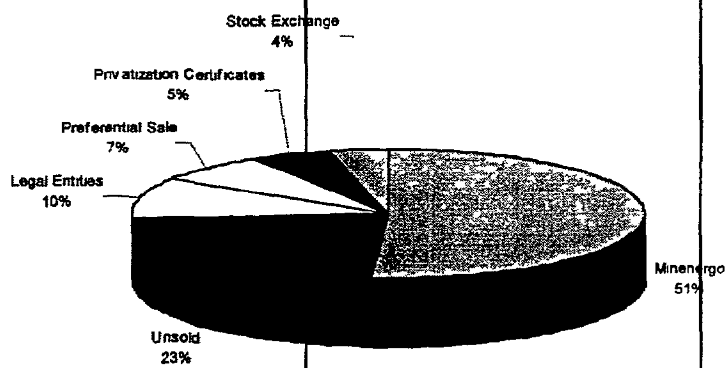
The state would retain ownership of 51% plus one share Twenty (20%) percent of the outstanding stock was planned for sale on commercial tender terms and the remainder would be sold through public sale (privatization certificates and stock exchange sales)

Of the original 4500 Khmelnytskoblenergo employees that purchased shares as of this date only 1 900 retain the shares in their possession Most of these sold shares went to the 25 legal entities that are now registered shareholders of Khmelnytskoblenergo stock

The Ministry of Energy of Ukraine still retains 51% of the common stock Here are the details

Share Distribution	**Number of Shares**
Minenergo	1,715,528
Unsold	773,669
Legal Entities	336,378
Participants of Preferential Sales Process	235,465
Privatization Certificate Auction	168,189
Stock Exchange Sales	134,551

Actual Share Distribution



TOTAL	**3,363,780**

Market Analysis

Summary

Khmelnytskoblenergo has primarily focused on the sale and distribution of electric energy to the customers in its service area This market is expected to grow slowly over the next two years but then begin a rapid expansion as the Ukrainian economic situation improves

Industry Analysis

- As of 1997 the total installed capacity of the electric power production facilities in Ukraine was 178 billion kWh
- In 1997 the gross electric power usage for consumption and export of Ukraine was 176 9 billion kWh
- The domestic market consumed 134 4 billion kWh in 1997 This was a decrease of 4% from the 1996 demand and an 11% reduction from 1995s total usage

Target Market

Khmelnytskoblenergo's target market is clearly those customers that reside inside their service area While Khmelnytskoblenergo is allowed to apply for an IES license for service outside its own area the company has no plans at this time to enter that market segment The company plans to maintain its clear and direct focus on increasing sales and profit margins within its own service area

Customer Profile

The Khmelnytskoblenergo customer can fall into one of the key categories listed below

- Industrial
- Agricultural
- Residential
- State Budget supported
- Local Budget supported

- Other

Major Competitors and Participants

While the overall market for energy in Ukraine has declined usage in the area served by Khmelnytskoblenergo has increased steadily since 1995 However, with the increase of use has not come an increase in percent of cash collected by Khmelnytskoblenergo Normally this would be classified as an operational issue and not one of market competition However, competition for cash paying customers has resulted in a loss of many of these enterprises to service by an IES Those customers that Khmelnytskoblenergo no longer serves were those that could, and often did, pay cash for electricity delivered The loss of these customers means a loss in cash collected and a much reduced cash flow to the company Therefore, the company chooses to view the loss of service to one of these customers as competition and a direct threat to its short term viability

Under the rules of the Energomarket Members Agreement Khmelnytskoblenergo should be receiving a transit fee from the IES using the Oblenergo's lines to serve a customer This fee should be paid monthly and in cash Currently this fee is rarely paid in cash and in some cases not paid in full at all In this situation Khmelnytskoblenergo not only loses a cash paying customer but also loses the cash it is due for transit fees due from the IES

Primary Independent Energy Suppliers
As of June 1998

Independent Supplier	Volume of delivery, kWtHr
Ukrainian Energy Consortium	6,118,434
Corporation "Ukrzarubizhnaftagaz"	703,856
CJSC "Promenergocomplex'	1,010,000
JSC "Ukrgasprom"	273,203
Kiev, Ltd	282,916
Chornobyl NPP	0
SJSEC "Dnistrohydroenergo"	6,000,000
NAEC ' Energoatom"	650,000
Electrobudinvest	450,000
JV "Ukr Ros	532,172
Total	**16,020,581**

Market Segmentation

Khmelnytskoblenergo has consciously decided not to ignore any of its customer segments While many Oblenergo's see industrial customers lost to IESs or State and Local Budget customers as "lost causes", Khmelnytskoblenergo views them all as important to the viability of the company in the immediate time frame and the long term future These "lost cause' customers can be further defined by the following characteristics

- The industrial customers that can currently pay cash for electric service are

those that wil
most likely be viable and profitable companies in the future

- The industrial customers that can currently pay cash for electric service are those that will most likely survive the industrial shake out to come and will therefore be those most likely to be influential in local and regional politics and policy setting Both of these areas will be of great importance to Khmelnytskoblenergo as tariffs begin to increase as they more closely track true costs of service The Oblenergo clearly sees the current and future need for the political support of these large and influential customers Serving is a way to build that support

- Currently the State and Local Budget customers pay very little if any cash for electricity consumed This situation is out of the control of the company and not likely to change soon However, Khmelnytskoblenergo sees the need today to stay close to these customers for political reasons stated above and for other objectives of a more near term value For example Monitoring the usage of Budget customers to see that budgeted usage guidelines are not exceeded This does not produce any more cash but does see that the overall debt by the State to the Oblenergo does not increase beyond what is budgeted A clear benefit to the company

Projected Market Growth and Market Share Objectives

Khmelnytskoblenergo expects that energy usage will increase approximately 20% between 1998 and the end of the year 2000 The company is targeting a market share of 90% by the end of the calendar year 2000

Product / Service Offering

Product / Service Summary

Khmelnytskoblenergo is in the business of delivering electricity to current and potential customers in a manner that suits the needs of those customers Given the wide range of customer types this means that the company must take what is essentially a generic product (electricity) and craft its delivery into a unique product for each customer or customer type

As the data in Appendices #1 and #2 indicates the spread of customer type is broad in both terms of usage and debt owed

Product / Service Uniqueness

The following are unique features that Khmelnytskoblenergo can deliver vs the IES competition

- Khmelnytskoblenergo is in a unique position to provide daily contact with the largest industrial or agricultural customers to meet their changing needs
- Khmelnytskoblenergo is in a unique position to provide energy consulting services to large industrial, agricultural or budget customers This ability puts the Oblenergo in the forefront of helping these customers meet the demands of their changing industries while at the same time providing information back to the Oblenergo for future planning
- Khmelnytskoblenergo is in a unique position to become experts in the industries and businesses they serve This puts them in the forefront of customer service, which will be increasing in demand from the largest customer segments

These features are not necessarily unique or patented but do give Khmelnytskoblenergo a proprietary-like advantage when competing against IESs

Operational Improvement

Khmelnytskoblenergo has embarked in recent months on a program to reduce losses both commercial (theft) and technical The goals of Khmelnytskoblenergo's program of loss control can be summarized as follows

- Increase inspections in rural areas where theft is the highest
- Increased inspections of residential meters in larger towns to detect and stop nonpayment
- Cash award incentive plan that includes targets for reductions in technical and commercial losses
- Planned review of current distribution system to spot areas of above average technical loss
- Increased meter inspections to reduce faulty meters as a cause of commercial losses

Khmelnytskoblenergo is drafting plan to begin carefully monitoring such things as

- Load of large apartment/office buildings and measuring use against payments
- True load of micronet service off of large industrial substations
- Number of micronet customers and plan for direct connection to Oblenergo distribution system with individual metered service

Labor Force

The labor force comes from the Khmelnytskiy Oblast area There has been no problem filling the need for laborers The employment pool in the Khmelnytskiy Oblast area is sufficient to meet the current and future needs of Khmelnytskoblenergo Employee turnover is very low Like all Oblenergos in Ukraine, Khmelnytskoblenergo has a labor force whose average age is skewed toward the normal retirement age Fully 10%—15% of the total employees are at or beyond normal retirement age In addition, the company feels that the education and experience of its employees is weighted to heavily towards the technical side of the business The company clearly sees the need for more people to work in the sales, collection and meter reading disciplines

In order to improve this situation the company is currently engaged in a review of its organization, the outcome of which will be a plan to reorganize to shift people from current positions to those that can better support the plans of the company This effort is expected to be completed by the 2nd Quarter of 1999

Marketing Plan

Creating and Maintaining Customers

As is traditional with electric distribution companies, Khmelnytskoblenergo has a very high customer retention rate However, their customer loss to IESs has increased dramatically in the last 12-18 months It is the reacquiring and retention of these cash paying customers that is the primary focus of the companies marketing plans

The company is currently involved in an extensive review of all its largest customers and developing individual plans for reacquisition or retention

Product Pricing Strategy

Khmelnytskoblenergo is required to base its tariffs on the formulas issued and approved by the National Energy Regulatory Commission of Ukraine Currently the allowed tariff is too low to fully recover fixed and variable costs and provide for a reasonable profit The company fully believes that this situation will change in the future and is therefore discussing strategies for pricing that will put it in a very strong position vs the competition

Founded on a market-segment-based approach this pricing strategy by Khmelnytskoblenergo works as follows

- Detailed evaluation of cost of service to each class of customer
- Assignment of overhead and certain fixed costs to the appropriate customer class
- Assignment of certain advertising and sales expenses to the appropriate customer class
- Development of cost based tariffs using the above stated market-segment costs

The above approach to pricing will insure that each customer segment is paying full cost of service It will also put the company in a more competitive position with large industrial customers as their

25

cost of service is usually lower on the per kWh basis than other customer types

Having gone through this detailed allocation exercise the company will be in a much better position to plan future expenses or target cost reductions as their true affect on downstream customer costs can be calculated

Product Positioning

Khmelnytskoblenergo has determined, based on its extensive knowledge of the customers, that the number one of objective of the average electric customer is reliable service Second is paying a fair price for value received in that service Khmelnytskoblenergo believes that the best way to meet those needs is somewhat different for each major customer segment These are

- Industrial Customers—True allocation of cost of service and close contact with the customer leading to increasing knowledge of the customers industry and requirements
- Large Agricultural Customers— True allocation of cost of service and close contact with the customer leading to increasing knowledge of the customers agricultural segment and requirements
- State and Local Budget Customers— True allocation of cost of service and close contact with the customer leading to increasing knowledge of the customers needs and future usage plans
- Residential—Improved billing and meter reading Improved customer service with greatly improved customer contact arrangements

PROMOTIONAL STRATEGY

Khmelnytskoblenergo has utilized a blend of promotional activities over the past year to improve the effectiveness of their cash collection efforts and communicate service and tariff issues to its customers The company's promotional tactics are quite different from its competitors Here are the current and planned promotional activities

Advertising Khmelnytskoblenergo conducts a small amount of image and brand awareness messaging in the local news publications The company has also been experimenting with radio and TV announcements

Public Relations Recently the company began planning a Public Relations program that will greatly improve its ability to get their message out to the customers and public at large Once implemented, this effort will greatly improve the company's ability to quickly and efficiently communicate with its customers via the mass media

Traveling Road Show Khmelnytskoblenergo has discussed plans for the General Director with support from selected Deputy Directors to hold "town-hall " meeting in the major towns the company serves It is envisioned that these meeting will allow the Oblenergo to present the situation in the Ukraine energy sector face-to-face with its customers while allowing them to ask questions and receive immediate answers

Industry Retreats Another unique promotional, strategy are the industrial retreats currently in the planning stages at Khmelnytskoblenergo These retreats are planned around energy related topics that are of interest and use to the industrial leaders in the Oblast These gatherings not only provide an excellent opportunity for Khmelnytskoblenergo to serve the customer beyond delivering kWh but also allows the Sales department personnel to meet with the customer outside their normal office setting

Internet Khmelnytskoblenergo has in the works a plan to implement its first home page on the web In addition to being used as a distribution vehicle for news and information the company is wants to eventually expand these efforts to include customer data access through the Internet This would then become another service product the company could offer

Financial Plan and Analysis

5-Year Income Statement (Appendix C)

The projected operating results for the multi year planning period are shown below in the pro-forma income statements

5-Year Balance Sheet (Appendices D and E)

The projected financial position as of the end of each fiscal year in the planning period are in the section that follows

Cash Budgets (Apendices E, F and G)

Cash collection budgets for the multi year planning period are show in the section that follows After year 1, the cash forecast shows positive cash balances without the need to borrow additional funds The 12 month cash budget for year one is also shown in the section that follows

APPENDIX B
VINNITSAOBLENERGO
BUSINESS PLAN OUTLINE

Suggested Outline for Vinnitsaoblenergo Business Plan

Strategic Framework
- Mission Statement
- Corporate Vision
- Corporate Objectives

Letter from General Director

Introduction and Company History

Background Information
- Introduction
- Customer Requirements
- Customer Service
- Service Delivery

Oblenergo Specifics
- Facilities
- Operations
- Human Resources
- Technology
- Environment
- Financial

Focused Planning
- Load Forecast
- Facilities Management
- Operations Management
- Personnel Management
- Technology Management
- Environmental Management
- Financial Management

External Factors Influencing Operations

Detailed Financial Forecasts

MISSION STATEMENT

Vinnitsaoblenergo's mission is "to provide for the safe, continuous supply of high quality electric energy adequate for the needs and future economic development of the Oblast and to promote economy and efficiency in the distribution, supply, sale, and use of power "

Additional text can be added to address competition and environmental issues

CORPORATE VISION

"to evolve as an innovative utility, providing superior service to its customers at reasonable tariff levels "

CORPORATE OBJECTIVES

Contribute to the economic development of the Oblast and the well being of the people of Vinnitsa primarily through the exercise of sound business practices with a goal of maintaining a strategic advantage through competitive tariffs

Ensure that customers receive a reliable supply of high quality electric energy

Ensure that customers receive high quality customer service in their interactions with Vinnitsaoblenergo

Utilize new technology to improve operating efficiency and customer service

Create a work environment which encourages the attraction and retention of excellent employees

Promote the efficient use of electricity through conservation and energy management techniques

Enhance external interconnection activities for the continued benefit of Oblast customers

Manage the enterprise in a manner which is sensitive to health, safety, and the environment

Maintain the confidence of the financial community

Provide reasonable financial returns to investors

(All of the above can be modified, deleted, or supplemented as required)

LETTER FROM GENERAL DIRECTOR

Letter could include operation as ajoint stock company, meeting the challenges of the 21st century, focus on customer service, changing operations to meet customers' needs, etc

This should serve as the Director's opportunity to directly communicate with a broad audience, which includes

Employees
Customers
Government
Investors
Public

The letter can also explain that this First business plan ensures open accountability to all entities, provides focused plans load forecasts, internal and external influences, and financial analysis and forecasts It should be the one comprehensive document which allows everyone to understand the issues facing the Oblenergo

INTRODUCTION AND COMPANY HISTORY

Include the history of the Oblenergo from its beginnings, any significant events, major changes and additions to the system, the reorganization from the parent Energo in 1995, and any other data which would give readers an historical perspective if the Oblenergo

This section should also describe the roles ofMinenergo and NERC and their respective operational and regulatory functions

Areas which could be addressed

When did electricity come to Vinnitsa?

When was the power grid integrated?

What generation sources were developed?

Correlation between supply and demand

New approaches to operation and management

BACKGROUND INFORMATION

Map of system showing
- Transmission system within and serving Oblenergo
- Generation (as appropriate)
- Interconnections

Explanation of
- How customers' diverse needs must be met instantaneously
- How systems work
- Changes in customer demand
- Sources of power
- Geography and demographics

Electricity Requirements
- Definitions of Demand and Energy
- Reasons that they differ
- Peak periods
- Graphs of peak demands, temperatures, and correlation

Managing Customer Requirements
- Load Forecasting
- Resource Planning
- Supply Reliability
- Service Restoration
- Public Safety
- Service Quality
- Future Supply
- Energy Efficiency
- Environmental Responsibility
- Economic Development
- Efficient Management
- Social and Community Involvement
- Customer Communications
- Price of Electricity

Delivery of Service
- Company Organization (charts, tables, etc)

Utility Regulation (NERC)
Competition (IES)

VINNITSAOBLENERGO FACILITIES

Normally for a vertically integrated utility, display a chart showing all generating stations

Station	Date in Service	Capacity (MW)	Fuel	Role
List all				

Integrated Resource Plan

- Fuel mix
- Environmental considerations
- Demand Side management (DSM)
- External requirements and opportunities
- Maintenance Issues
- Status of facilities
- Development lead time

Each section should have a detailed description of the issue

TRANSMISSION SYSTEM

- Interconnections
- Oblenergo system
- Number of km
- Different voltages
- Design criteria
- Reliability
- Investment

DISTRIBUTION SYSTEM

- Delivery to customers
- Number of km
- Voltages
- Sub-stations
- Reliability
- Investment

VINNITSAOBLENERGO-OPERATIONS

Maintenance Programs

- Generation
- Transmission
- Distribution
- Vehicles and equipment
- Buildings
- Security

Management of the business

- Acquisition and retention of customers
- Management of resource acquisitions
- Transmission and distribution of electricity
- Construction and maintenance
- Operational support functions
- Management procurement

Management is responsible for managing all of these functions including the technical, Financial and human resource aspects, both internally and externally

Business Process improvements

Customer Service Organization

- Facilities
- People
- Locations
- Service options
- Management recommendations

Industrial Customer Requirements

- Communication
- Personal responsibility
- Information sharing

Contract administration

Information can also be provided on customer satisfaction, areas for improvement, plans for changes, customer information programs, etc

VINNITSAOBLENERGO - PERSONNEL

Description of Workforce
- Number of employees
  - Professional
  - Technical
  - Trade
  - Administrative
  - Supervisory

Employee Development
- Training
- Evaluation
- Advancement opportunities

Employee Relations

Employment Equity

Health and Safety

Social Programs

VINNITSAOBLENERGO - TECHNOLOGY

Background
- Initiatives
- Information Systems
- Advanced T & D Systems
- Software Development

Communications Improvements

Any technological improvements implemented aor planned should be included in this section

VINNITSAOBLENERGO - ENVIRONMENT

Environmental Policy Statement

Leadership

Standards and guidelines

Audits

Environmental Protection

Environmental Partnership with larger community

Regulatory requirements

Management Accountability

Accomplishments

VINNITSAOBLENERGO - FINANCIAL

Background

Credit ratings

Debt Management

Tariff structure (show charts and graphs for all customer classes)

Capital and Maintenance expenditures

Cost Control

Accounting Policies

Financial reports (Receivables, debts, contractual obligations)

Balance Sheets

Income Statements

Other financial obligations or opportunities

FOCUSED BUSINESS PLANNING

In each of these sub-sections, all forward looking planning activities should be described in sufficient detail to give the reader an understanding of the importance and magnitude of each initiative

Load Forecasting

- Projected growth of all customer classes (show historical growth chart)
- Rate of population growth
- New homes, apartments, and businesses
- New electric appliance additions
- Weather conditions
- Impact of energy efficiency measures
- Gross domestic product
- Industrial growth
- Price/demand relationship

Facilities Management

- Integrated resource planning
- DSM
- Energy planning needs
- Capacity needs
- System operations opportunities
- Cooperative planning
- Transmission improvements
- Distribution improvements

All of these areas should be addressed to indicate the level of expected activity, the results anticipated, and the overall impact on the company

Operations Management
- General operation
- Efficiency improvements
- Required investments
- System operation and maintenance T&D
- Business process improvements
- Contract administration and renegotiation
- Specific project improvements and/or additions
- Competition
- Customer Service
- Operational competency

Personnel Management
- Detail plans to sustain quality staff in the company
- Updating skills and competencies
- Workforce flexibility
- Performance based compensation
- Incentives
- Safety recognition
- Employee involvement

Technology Management
- Key initiatives
- System enhancements
- Research and development
- Information technology
- Business process improvements

Environmental Management
- Detail of future plans and continued compliance and leadership
- Responsible disposal of waste products
- Air and water quality
- Fuel storage
- Spill clean up procedures

Financial Management
- Tariff stability
- Capital and operating expenditures
- Sale of company shares
- Sales forecasts

- Revenue expectations
- Expenditure restraint
- Depreciation
- Income
- Financial targets
- Fuel and purchased power costs
- Financing charges
- Borrowing requirements
- Balance sheets, income statements, and changes in financial position
- Accounting policies
- Tax compliance

Show detailed plan for financial plans including all known and measurable data

Graphs and charts should be used to illustrate financial history and projections

External Factors Influencing Operations

- Industrial growth
- Foreign exchange
- Interest rates
- Inflation
- Variable costs
- Adequate tariff allowances
- Weather
- Governmental policies
- Competition

List all other known external influences and how management plans to meet the challenges

APPENDIX C
GENERIC
BUSINESS PLAN EXAMPLE

100 Kings Highway
Myrtle Beach SC
02809
Telephone (800) 234
9798
info@golftech com
Contact Fred Phillips
CFO

GolfTech, Inc.

GolfTech Business Plan

Table of Contents

42

GolfTech Business Plan

Performance Enhancing Clubs

Executive Summary

GolfTech is a manufacturer of expertly engineered golf clubs The GolfTech clubs utilize a high tech design to improve a golfer's swing, accuracy and distance and are targeted at the average golfer The company is expanding its production facilities and wishes to raise $1 million in new capital

GolfTech was founded five years ago by Ralph Adams It is incorporated and located in the state of South Carolina and the corporation is closely held by Mr Adams and his family In the last two years its domestic sales growth has jumped over 25% while international sales have been insignificant In the past 6 months GolfTech signed two major agreements with international affiliates to distribute its products overseas As a result of these agreements sales in the international market will accelerate and add to the domestic sales momentum, thus requiring GolfTech to increase its production capacity

GolfTech has several important competitive advantages

- Senior management have significant business experience in addition to a passion for golf
- GolfTech has a reputation for very high quality and recently achieved ISO 9000
- GolfTech has consistently set and achieved financial measures in the areas of liquidity inventory management and profitability and is positioned well for future growth
- GolfTech has negligible long-term debt
- GolfTech is a closely held corporation with the potential to raise additional equity funds While the founder wants to maintain a majority control he is interested in raising capital by selling stock to management key employees and area business people and investors

Type of Business

GolfTech Inc is a designer manufacturer and distributor of expertly engineered golf clubs GolfTech has been operating in this capacity since 1991 The company manufactures a line of high tech woods irons and a putter

Company / Business Summary

Founded five vears ago by Ralph Adams GolfTech has enjoyed excellent growth in sales and earnings The initial growth was fueled by the success of Fairway Pro a product designed by the founder Ralph Adams and the company's chief engineer John Grant As an engineer and an avid golfer Ralph had the vision to design high performance clubs for the average golfer The company initially introduced a multi-functional golf club that enhanced performance while replacing several clubs in the golfers bag With the initial acceptance of the FairwayPro the company expanded its engineering department to design an entire set of clubs to give its target customer a full set of clubs with the best price and performance on the market The business is in its fifth year of operation and is on the verge of a new product transition and major facility expansion to meet the increased domestic demand for product sales and planned international expansion

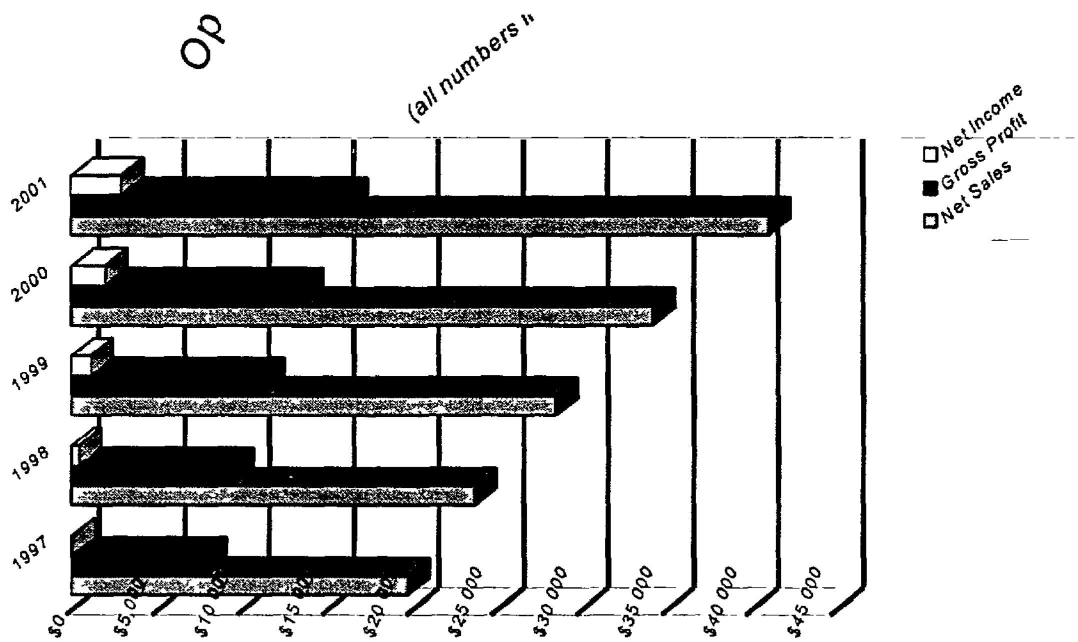
The business is incorporated in the state of Delaware as a C Corporation and the stock is closely held by Mr Adams and his family

Financial Objectives

Until now GolfTech has funded all of its growth internally and through owner s equity The company is now poised to post large sales and profitability gains over the next several years as is demonstrated by the following chart The company is confident that these numbers can be accomplished based on its superior product position strong financial position seasoned management and perhaps most importantly its successful track record over the past five years

O

	1997	1998	1999	2000	2001
Net Sales	$19 800	$23,760	$28,512	$34,214	$41,057
Gross Profit	$7 800	$9 360	$11 232	$13 477	$16 175
Net Income	$105	$458	$1 156	$1 989	$2 950



Sales and profits grow as a result of expansion into foreign markets and continued domestic sales growth

Management Overview

GolfTech has had very stable management over the past 5 years The founder Ralph Adams has assembled a seasoned team of professional managers Two of the managers, the CFO and the Vice President of Manufacturing, have track records which include fast growing companies and the experience of taking these companies public

In 1995, the company implemented a more structured organization Prior to this, the company successfully operated with a small company start-up mentality with basically everyone reporting to Ralph Adams, the founder Ralph decided to remove himself from the day to day operations and devote his entire efforts to new product development, his real passion Ralph has entrusted the operating control to his daughter, Mary Adams a seasoned manager who helped establish the manufacturing process at GolfTech before taking a senior level position for a leading Fortune 500 company The current organization is now better structured and accustomed to meeting monthly commitments and staying within budgets The company managed to make this change without substantially altering the informal culture that make GolfTech a fun place to work

Product / Service and Competition

The GolfTech product line is unique because of its patented design features These unique product features promote accuracy and distance As the sales literature and advertisements state, 'for about the price of a traditional (mid-priced) club the average golfer can improve their golf game with the superior designed GolfTech club' The clubs allow for what some golfers call maximum forgiveness" It simply means that you can make a less than perfect swing but still make a great shot because of the GolfTech design The GolfTech club gives the average player the confidence and consistency that makes golfing enjoyable The clubs make the game more enjoyable by minimizing the problems caused by mis-aligned, off-centered shots They are specifically designed to give more distance on drives with less effort and have a design feature that helps the golfer self-correct swing flaws while practicing

GolfTech has been extremely effective at promoting its message at the grass root levels That message has been effectively communicated in its domestic market and GolfTech is ready the communicate the sales message to the European and Chinese markets

The competition in the high tech club market comes from a variety of sources

Traditional competition comes from the leading sporting goods like Wilson and Spalding These suppliers have established channels of distribution and high prices, but their product value is perceived to be relatively poor

Emerging competitors include club designers like Callaway and Taylor Made These companies have designed products of very high quality and have a cult following among their buyers The products are extremely expensive

GolfTech has designed an entire set of clubs that offer many of the same high quality features of the emerging club designers, but they have three very important differences

they appeal to the largest segment of golfers - the average scoring golfer Unlike the high priced, high tech clubs of Callaway and Taylor Made, the GolfTech design is specifically geared to the average golfer

the clubs while expensive at $900 for a complete set are priced at 40% less that the competition

46

the products have been very successfully marketed at the grass roots ' level

Funds Requested

The amount of funds needed is $1 million which will cover the construction of additional production space and the purchase of equipment Approximately $750 000 will be needed for construction while the remaining $250 000 will be used for equipment purchases The plan is to finance the $1 million expansion with 50 % debt and 50 % equity Approximately $500 000 will be raised via a stock offering to senior management key employees and investors in the local area The remaining $500 000 will be financed via a five year bank loan As security for the loan, GolfTech can offer the collateral of equipment and accounts receivable

Use of Proceeds

The $1 million of new capital will be used to finance the expansion of the production facilities and the purchase of new equipment

Exit

GolfTech's management team is committed to the growth plan as outlined in this plan By primarily selling stock to its employees GolfTech views this action as a great opportunity for its key employees to purchase shares at a substantial discount Ralph Adams is committed to taking the company public before the end of the five year period Based on the projected plan that GolfTech s management has assembled and are committed to the company forecasts a valuation of $50 million dollars in the year 2000 This valuation will produce a greater than 10x return on this stock purchase

Management Overview

GolfTech has had very stable management over the past 5 years The founder, Ralph Adams has assembled a seasoned team of professional managers Two of the managers, the CFO and the Vice President of Manufacturing, have track records which include fast growing companies and the experience of taking these companies public

In 1995, the company implemented a more structured organization Prior to this, the company successfully operated with a small company start-up mentality with basically everyone reporting to Ralph Adams, the founder Ralph decided to remove himself from the day to day operations and devote his entire efforts to new product development, his real passion Ralph has entrusted the operating control to his daughter, Mary Adams, a seasoned manager who helped establish the manufacturing process at GolfTech before taking a senior level position for a leading Fortune 500 company The current organization is now better structured and accustomed to meeting monthly commitments and staying within budgets The company managed to make this change without substantially altering the informal culture that make GolfTech a fun place to work

Product / Service and Competition

The GolfTech product line is unique because of its patented design features These unique product features promote accuracy and distance As the sales literature and advertisements state, "for about the price of a traditional (mid-priced) club, the average golfer can improve their golf game with the superior designed GolfTech club" The clubs allow for what some golfers call "maximum forgiveness" It simply means that you can make a less than perfect swing but still make a great shot because of the GolfTech design The GolfTech club gives the average player the confidence and consistency that makes golfing enjoyable The clubs make the game more enjoyable by minimizing the problems caused by mis-aligned, off-centered shots They are specifically designed to give more distance on drives with less effort, and have a design feature that helps the golfer self-correct swing flaws while practicing

GolfTech has been extremely effective at promoting its message at the grass root levels That message has been effectively communicated in its domestic market and GolfTech is ready the communicate the sales message to the European and Chinese markets

The competition in the high tech club market comes from a variety of sources

Traditional competition comes from the leading sporting goods like Wilson and Spalding These suppliers have established channels of distribution and high prices, but their product value is perceived to be relatively poor

Emerging competitors include club designers like Callaway and Taylor Made These companies have designed products of very high quality and have a cult following among their buyers The products are extremely expensive

GolfTech has designed an entire set of clubs that offer many of the same high quality features of the emerging club designers, but they have three very important differences

they appeal to the largest segment of golfers - the average scoring golfer Unlike the high priced, high tech clubs of Callaway and Taylor Made, the GolfTech design is specifically geared to the average golfer

the clubs, while expensive at $900 for a complete set, are priced at 40% less that the competition

the products have been very successfully marketed at the "grass roots" level

Sales and profits grow as a result of expansion into foreign markets and continued domestic sales growth

Identification of Market Opportunity

GolfTech estimates that the overall market for the sale of golf clubs is growing at about 5% domestically and 11% internationally The specific market that GolfTech's products address is growing at a much faster rate than this GolfTech's management is confident that it will be able to match its above average growth of 25-30% over the next five years

GolfTech's products appeal to the sweet spot of the golfing public With over 35 million golfers in the United States over 90% of these golfers view their golfing skills as "average' The GolfTech product line offers sate of the art product design that is specifically designed to the average golfer Rather than designing clubs for professionals Ralph Adams established the company's products to meet the number one objective of golfers greater enjoyment of the game The products have enjoyed substantial success over the past five years as buyers have established the same type of cult following for GolfTech as scratch golfers have for Callaway

GolfTech has also capitalized on the single biggest market size expansion of the golfing market in the past decade Ralph Adams recognized the growing trend of upscale women golfers and capitalized on this trend from the very beginning The company manufactures a complete set of women's clubs which uniquely exploit the GolfTech advantages while addressing the specific needs of the average woman golfer

This fiscal year represents a crossroads for GolfTech in three respects

- the company is launching an entirely new set of titanium based clubs which have received accolades from its current customers and new prospects

- its international expansion into Europe and China represents the biggest opportunity for the company since its founding

- its new management structure is now geared to exploit these opportunities

In the fourth quarter of last year GolfTech entered into two major export agreements The first is with Sports*Europe* a sporting goods distributor with sales offices throughout Europe The second significant agreement is with Commonwealth Traders of Hong Kong

The agreement with Sports*Europe* involves a joint venture in which Sports*Europe* will have the sole distributorship rights to GolfTech s products in Europe The projected first year sales as a result of this agreement are $1 5 million

The Commonwealth Traders of Hong Kong agreement will create another joint venture consisting of GolfTech and Commonwealth The advantage of that deal is that Commonwealth is 'China-savvy Commonwealth has offices in both Hong Kong and Shenzhen China Shenzhen is rapidly becoming the jump-off point for Hong Kong business throughout southern China The Hong Kong joint venture should be instrumental in opening the vast Chinese market to GolfTech The projected first year sales as a result of this agreement are $2 5 million

Business History

Founded five years ago by Ralph Adams, GolfTech has enjoyed excellent growth in sales and earnings The initial growth was fueled by the successful product development of the founder Ralph Adams and John Grant the company's principal design engineer After the initial growth in sales Adams and others were responsible for designing new golf club models that continue to give the average golfer greater confidence and consistency The business is in its fourth year of operation and is on the verge of a major expansion of its facilities to meet the demand for product sales in both Europe and Asia

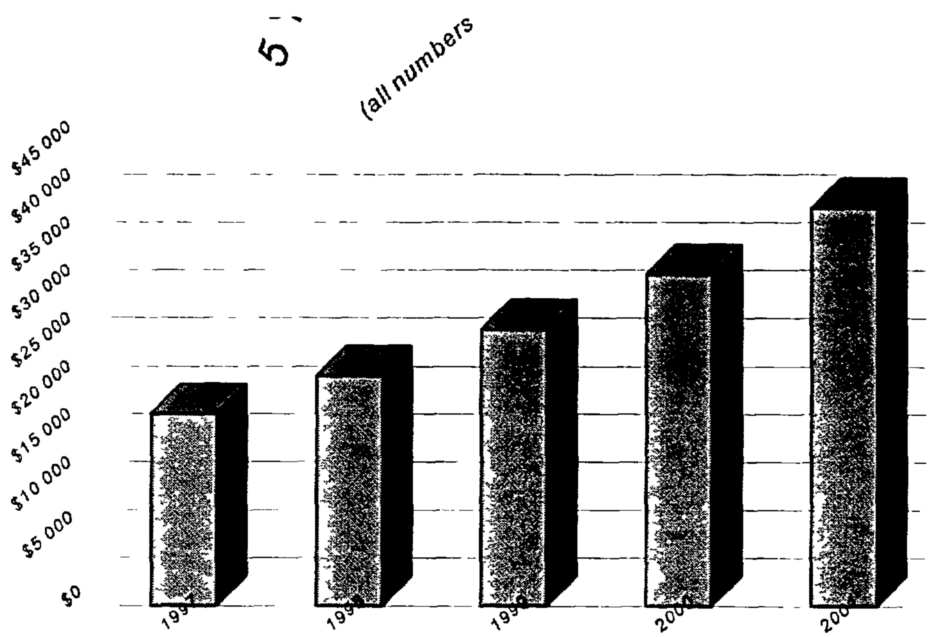
In the beginning Ralph Adams created a niche demand for the GolfTech clubs through a very unique two part promotional strategy

The first part of the promotional strategy involved a traveling road show where Adams and other GolfTech associates visited public golf course pro shops giving seminars detailing GolfTech's latest advances and demonstrating the performance enhancing features of the GolfTech clubs

The company also introduced the concept of golf retreats in the Myrtle Beach / Grand Strand area GolfTech has been successful at delivering golf retreats that promote unique personal enhancement and team-building program to corporate executives These programs include executive seminars golf clinics an 18-hole golf event and a follow-up learning exchange activity The mission of the retreats is to introduce executives to an enjoyable way of enhancing performance in business and to show them how to improve their golf game using the technically superior GolfTech clubs

Growth and Financial Objectives

GolfTech's 5 year marketing plan projects 20% growth in sales for each of the next five years Company management believe that this forecast has substantial upside opportunities With the introduction of the new 'Titan ' line of titanium clubs in 1997 the company expects to expand its market while selling back to its installed base



The details of the sales forecast are as follows

5 (all numbers i

	1997	1998	1999	2000	2001
Fairway Pro	$10 000	$12 000	$14 400	$17 280	$20 736
WoodPro 1	4 000	4 800	5 760	6 912	8 294
WoodPro 2	2 000	2 400	2 880	3 456	4 147
PutPro	1 000	2 200	1,440	1 728	2 074
NinePro	1 000	1,200	1 440	1 728	2 074
WedgePro	2 000	2,400	2,880	3 456	4 147
Product 7	0	0	0	0	0
Product 8	0	0	0	0	0
Total Sales	$20 000	$24 000	$28,800	$34 560	$41 472

Other GolfTech financial objectives include

Current ratios of at least 1 5

Debt / Equity of no more than 87%

Average collection period of no more than 30 days

These key ratios and many others are shown below

51

F

	1997	1998	1999	2000	2001
Liquidity					
Current Ratio	1 73	1 63	2 13	2 99	4 07
Acid Test Ratio	1 27	1 25	1 54	2 16	2 98
Leverage					
Debt Ratio	44 24%	44 78%	35 54%	26 63%	17 98%
Debt/Equity Ratio	79 33%	81 09%	55 14%	36 30%	21 92%
Times Interest Earned	4 00	14 10	34 04	57 84	85 28
Efficiency					
Inventory Turnover	30 77	28 80	21 60	17 28	14 64
Average Collection Period	18 25	22 81	22 81	21 12	21 12
Total Asset Turnover	6 08	6 02	5 94	5 38	4 81
Profitability					
Gross Margin	39 00%	39 00%	39 00%	39 00%	39 00%
Return on Assets	3 19%	11 50%	23 84%	30 94%	34 19%
Return on Equity	5 73%	20 82%	36 99%	42 18%	41 69%

52

Legal Structure and Ownership
GolfTech is incorporated in the state of South Carolina Ralph Adams and his family are the sole shareholders of GolfTech, holding 50 000 shares The charter authorizes the issuance of 100 000 shares class A common stock

Company Location and Facilities
GolfTech s primary operations are in Myrtle Beach South Carolina The manufacturing facility which is approximately 25 000 square feet is located on 10 acres of land off route 2A on the northwest corner of Myrtle Beach The administrative offices are located on Route 3, in the heart of the Golf resort area of Myrtle Beach Both the production facilities and the administrative offices are owned by GolfTech

With the expansion plans into the European and Asian markets, GolfTech s production facilities need to be expanded Production is now running at close to 100% capacity with 2 shifts working six days per week It is projected that the administrative offices which are about 8,500 square feet, offer enough excess and underutilized space to meet the needs of the company during the next five years

Plans for Financing the Business Expansion
The $1 000 000 expansion will be financed with both equity and debt Half of the financing will come from the sale of 10 000 shares of GolfTech stock at $50 per share to a select and eager group of investors These investors will be composed of key employees and area business people This plan is also seeking an additional $500 000 which the company hopes to raise via a five year bank loan The bank loan can be secured using a combination of equipment and accounts receivable collateral and the personal guarantee of Ralph Adams

Organization

Most of GolfTech's management team has been with the company since it start-up five years ago All have an intense interest in golf and prior to joining GolfTech were corporate executives

Management Team
Below is a summary of GolfTech s management team s background and experience

Ralph Adams 57 (Chairman of the Board and Founder) Prior to founding GolfTech Mr Adams was a manufacturing engineer with Golf Pro Inc a maker of professional quality golf clubs and accessories

Mary Adams 28 (Vice Chairman) Ms Adams is the daughter of Mr Ralph Adams She holds an MBA from Stanford and an undergraduate from Harvard Prior to rejoining GolfTech where she worked as Director of Manufacturing from 1991 until 1993 Mary was a division manager for the W R Grace High Tech Resin Products Division

Fred Phillips 33 (Chief Financial Officer) Mr Phillips is a graduate of Boston College with a Masters in Finance He has been with GolfTech for the last two years Prior to joining GolfTech Mr Phillips was treasurer of Grinnell Fire Protection An avid golfer, Mr Phillips worked for 5 years as a golf pro in the Myrtle Beach area

Calvin Horton CPA, 45 (Controller) Mr Horton is a graduate of Kentucky State University He worked for Arthur Anderson for 12 years before joining GolfTech

Hank Franklin 40 (Vice President of Manufacturing) Mr Franklin worked for 15 years with Southern Manufacturing in a variety of production and operations management positions He is ISO 9000 certified and is a frequent lecturer at Colleges, Universities and Executive Development programs on the topics of continuous improvement quality control and activity based management

53

Alice Smith 37 (Vice President of Marketing) Ms Smith is a graduate of the University of North Carolina with a BS in Marketing Prior to joining GolfTech she was Manager of Sales for Championship a golf ball and golf accessories manufacturer

Organizational Structure

Until late 1995 GolfTech had a fairly fluid organization with almost no formal reporting structure That year Ralph decided to remove himself entirely from the day to day activities of the company and devote all of his energy to product development Mary Adams, the daughter of Ralph, was named Vice Chairman and CEO Mary was the original Director of Manufacturing for the company but left in late 1993 to work as a Division Manager of a large Fortune 500 manufacturer The company is currently seeking a seasoned international executive to manage its international expansion

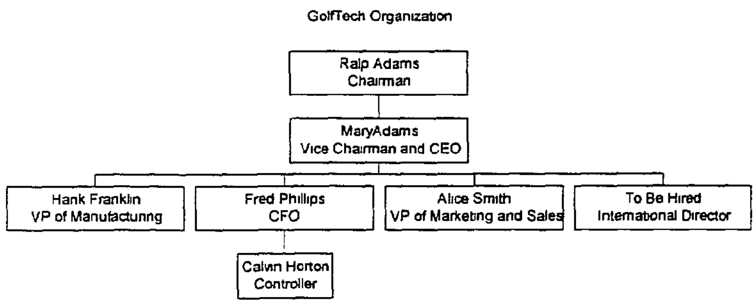


Figure 1 GolfTech 1996 Organization

Other Key Employees

There are two key employees who are not members of the senior management team

John Grant is a club designer who worked closely with Ralph Adams to design the flagship product the FairwayPro Mr Grant is still the key club designer and has been a critical person in the introduction of new products Mr Grant has earned accolades for the material and physical design of the GolfTech products

Wendy Edwards is manager of Golf Retreats and Outreach Activities She has been instrumental in developing the executive golf retreats and tournament programs Ms Edwards has a background in executive development and education, is effective at planning and implementing the personal development programs at the retreats She has developed valuable contacts with lecturers and consultants who are contracted to provide the executive training In addition Ms Edwards has superb platform / speaking skills and acts as a facilitator and moderator for these programs

Both Mr Grant and Ms Edwards have participated in a senior management / key person bonus and profit sharing program in the last two years as a way of assuring their continuation with GolfTech In addition Mr Grant and Ms Edwards will be offered equity positions in the company upon the planned $1 million expansion

Principal Stockholders

Ralph Adams and his family currently own all 50 000 issued shares of GolfTech class A common stock Here are the details

Shareholder Name	Number of Shares
Ralph Adams	30,000
Martha Adams (Ralph's Wife)	10,000
Ralph and Martha Adams (Joint)	5,000
Mary Adams (Ralph's Daughter)	5,000
Total	50,000

The company is planning to make an additional 10,000 shares available to senior management key employees and key shareholders The majority of these shares will go the employees while a small number will be made available to area business people and investors

Even after the issuance of an additional 10 000 shares the Adams family will still hold a controlling interest at 84% After the issuance the new shares the equity ownership percentages will approximately be as follows

Adams Family 84%

Management and Key Employees 13%

Outside Investors 3%

55

Other Key Employees

There are two key employees who are not members of the senior management team

John Grant is a club designer who worked closely with Ralph Adams to design the flagship product the FairwayPro Mr Grant is still the key club designer and has been a critical person in the introduction of new products Mr Grant has earned accolades for the material and physical design of the GolfTech products

Wendy Edwards is manager of Golf Retreats and Outreach Activities She has been instrumental in developing the executive golf retreats and tournament programs Ms Edwards, has a background in executive development and education, is effective at planning and implementing the personal development programs at the retreats She has developed valuable contacts with lecturers and consultants who are contracted to provide the executive training In addition, Ms Edwards has superb platform / speaking skills and acts as a facilitator and moderator for these programs

Both Mr Grant and Ms Edwards have participated in a senior management / key person bonus and profit sharing program in the last two years as a way of assuring their continuation with GolfTech In addition, Mr Grant and Ms Edwards will be offered equity positions in the company upon the planned $1 million expansion

Principal Stockholders

Ralph Adams and his family currently own all 50 000 issued shares of GolfTech class A common stock Here are the details

Shareholder Name	Number of Shares
Ralph Adams	30,000
Martha Adams (Ralph's Wife)	10,000
Ralph and Martha Adams (Joint)	5,000
Mary Adams (Ralph's Daughter)	5,000
Total	50,000

The company is planning to make an additional 10,000 shares available to senior management, key employees and key shareholders The majority of these shares will go the employees while a small number will be made available to area business people and investors

Even after the issuance of an additional 10,000 shares, the Adams family will still hold a controlling interest at 84% After the issuance the new shares the equity ownership percentages will approximately be as follows

Adams Family 84%

Management and Key Employees 13%

Outside Investors 3%

Market Analysis

Figure 8 GolfTech 1996 Organization

56

Summary

GolfTech has primarilv focused on the domestic sales of its golf clubs That market has been growing at about 10% per year and GolfTech has been able to stay considerably ahead of the domestic growth rate Expanding into international markets should give GolfTech even greater sales growth

Industry Analysis

The size of the US domestic golf club market is estimated at $200 million annually

GolfTech has captured roughly 4% of the total market

The domestic market has been growing at about 10% per year with GolfTech s sales growing at about twice that rate

To continue its rapid growth GolfTech is beginning to exploit the international market where growth is forecast to be at about 25%

The purchase of golf clubs by women is growing at 25% a year In GolfTech s specific product segment sales to women are increasing by 40% a year

Target Market

GolfTech s target market is the average golfer who plays once per week and who takes golfing vacations and retreats to golf resort areas such as Myrtle Beach Although GolfTech clubs have been test by PGA pros the club is geared to the average golfer who is looking for performance enhance via a club that promotes a better swing, faster club speed and more accurate approach

GolfTech s focus on the female market segment has paid off handsomely Over 30% of the company s products are purchased by female golfers much higher than the typical 15% share of the overall market that the female market comprises

Customer Profile

The typical GolfTech customer has these characteristics

Average age 36

Median household income $70 000

Male 70% Female 30%

Employed as Corporate Executive

Years of playing experience 5 years

Golf once per week

Frequency of golf vacations 1 a year

Major Competitors and Participants

While the overall market for golf clubs has grown slowly over the past decade the sales of high performance clubs has done substantially better than the traditional market segment This market has been served by a variety of manufacturers They include the following

Company	Competitive Characteristics

57

Wilson	Wilson is a traditional supplier of product to the golfing market It has been slow to react to the new market influences, thus losing an opportunity to capitalize on this faster growing segment Wilson has never had a reputation for leading edge clubs, and this image is not expected to change anytime soon
Spalding	Spalding attempted to enter the high performance club market in 1993 Its efforts were short lived when the products were recalled due to a manufacturing defect. Spalding has plans to re-enter the market next year and their efforts will be closely monitored
Callaway	Callaway has been extremely successful in the very high priced category Its clubs are the envy of the industry and their financial results have been spectacular Callaway has more professional endorsements than any other manufacturer and aims their products at the advanced golfer Many "wannabee" golfers also purchase their product for its name and prestige Any effort from Callaway to enter GolfTech's market segment would be treated with great scrutiny
Taylor - Made	Taylor Made has emulated its design and marketing efforts on the market leader, Callaway It is attempting to compete with Callaway on price and wider distribution

Market Segmentation

GolfTech has consciously decided to ignore the high end professional segment of the equipment market It has pleased the golfing masses with a product that is specifically designed for the "average' golfer This market positioning was considered very risky at the beginning In the past, all market participants had decided that you had to go after the professional golfer in order to succeed GolfTech turned this equation around Most golfers understand that they will never have the patience or time to become a great golfer but they want to enjoy the game GolfTech's products enable them to do this

This market segment is further defined by the following characteristics

- the products are more strongly embraced by the novice golfer
- women are less image conscious when it comes to golf and they want to use a product that will allow them to better enjoy the game As a result GolfTech has had very strong appeal to the female market
- while all of the high performance products appeal to above average earners the GolfTech products appeal to a broader range income levels than Callaway which appeal to a narrower and higher earning scale

Projected Market Growth and Market Share Objectives

The average golfer market is expected to grow at a rate above the total golf club market at approximately 20% per year Trends and projections show that there is great interest in golf as the baby boomers move into peak earning years and as the parents of baby boomers retire and take up golf

Product / Service Offering

Product / Service Summary

The flagship product is the FairwayPro which was the first product brought to market by GolfTech The FairwayPro is a multi-functional iron The company also manufactures a line of high tech woods and putting irons Here is a list of the GolfTech products and their approximate percentage of total revenues

FairwayPro 50%

WoodPro 1 20%

WoodPro 2 10%

58

Putt Putt Pro 5%

NinePro 5%

WedgePro 10%

Product / Service Uniqueness

The following are unique features of the GolfTech woods drivers, and wedges

The matching of an extreme offset club head with a lower center of gravity This feature helps the average golfer to get shots airborne quicker and easier

The four-way bulge and roll for gear effect correction of swing path errors This feature helps the average golfer use cybernetics to contiguously improve the swing

The pairing of a face-center balanced club head with a frequency-matched, wood-length graphite shaft to generate greater club head speed and more distance with less effort

The revolutionary dot and groove face design This is an improvement over traditional grooves While traditional grooves maximize back spin on perfect drives they cause side spin on mis-aligned off-center shots actually making a hook or slice worse

These features are patented and therefore give GolfTech a proprietary advantage

The GolfTech putter has no real unique advantages over the competition but customers who are using GolfTech other clubs have asked for a putter under the GolfTech label

Product / Service Descriptions

With each of the GolfTech clubs (with the exception of the putter) the company is selling enhanced performance All the clubs utilize the GolfTech patented design that results in maximum forgiveness of poor swings and maximizing the club's sweet spot

The following are descriptions of the GolfTech products

FairwayPro This is the top selling product It is multi-functional long approach fairway club that can replace several clubs in a golfer s bag Its design features are described in the previous section

WoodPro 1 This is a wood used to drive from the tee Its design features are described in the previous section In addition it has a graphite shaft to make it lighter than a traditional driver Its design features are described in the previous section

WoodPro 2 This is a wood Its design features are described in the previous section In addition it has a graphite shaft to make it lighter than a traditional driver This club is recommended for long-low shots from both a tee and fairway Its design features are described in the previous section

Putt PuttPro This is the putter and is quite comparable to the competition Its only uniqueness is that it carries the GolfTech name

NinePro This is a pitching wedge and is used on medium-range shots to loft the ball well into the air and limit its roll to a short distance after landing Its design features are described in the previous section

WedgePro This is a sand wedge Its design features are described in the previous section

Competitive Comparisons

The GolfTech product line faces its primary competition from two high performance club suppliers The table below outlines a brief synopsis of this competition

	GolfTech	Callaway	Taylor Made
Product Quality	Excellent	Excellent	Very Good
Price	Moderate- High ($900)	Very High ($1,700)	High ($1,200)
Image	Strong	Very Strong	Strong
Targeted user	Average user	Advanced	Intermediate - Advanced
Distribution	Specialty, Experimenting with direct marketing	Specialty	Specialty
Warranty	5 years	5 Years	3 Years
Pro Endorsements	Few	Most	Many

Product Comparison Table

GolfTech stands up very well against its primary competitors Its product line is clearly differentiated by its price targeted user and strong customer service

Research and Development

GolfTech is strongly committed to R&D and has set the goal of two new products or significant product innovations in each of the next five years Last year's R&D expenditures were $900 000 Plans call for R&D expenditures to grow by 15 - 20% for the next five years

This business requires a constant commitment to Research and Development The company can gain substantial sales growth from new product cycles by keeping on top While the company is now ready to introduce a new line of titanium based clubs it is already experimenting with a variety of new club designs using the most advanced materials

Patents and Trademarks

The design of the GolfTech clubs (with the exception of Putt PuttPro) has been patented In addition GolfTech is a trademark as is the distinctive emblem that is affixed to each GolfTech club GolfTech has not assigned any of its patent rights to other manufacturers nor has it entered into anv licensing agreements with other companies

GolfTech stands up very well against its primary competitors Its product line is clearly differentiated by its price targeted user and strong customer service

Research and Development

GolfTech is strongly committed to R&D and has set the goal of two new products or significant product innovations in each of the next five years Last year's R&D expenditures were $900,000 Plans call for R&D expenditures to grow by 15 - 20% for the next five years

This business requires a constant commitment to Research and Development The company can gain substantial sales growth from new product cycles by keeping on top While the company is now ready to introduce a new line of titanium based clubs it is already experimenting with a variety of new club designs using the most advanced materials

Patents and Trademarks

The design of the GolfTech clubs (with the exception of Putt PuttPro) has been patented In addition, GolfTech is a trademark as is the distinctive emblem that is affixed to each GolfTech club GolfTech has not assigned any of its patent rights to other manufacturers nor has it entered into any licensing agreements with other companies

Manufacturing / Production Plan

Product Comparison Table

61

Current Plant Production and Capacity

The manufacturing facility which is approximately 25 000 square feet is located on 10 acres of land off route 2A on the northwest corner of Myrtle Beach With the current production facilities at close to 100% capacity there is a defined need to expand the production facilities The expansion plans earmark 15 000 square feet of new production area and 6 000 square feet of additional warehouse space The lavout of the current facilitv and the ample acreage of the company s current parcel make it possible to expand without additional land purchases

Production Issues

All components of the GolfTech clubs are manufactured and assembled at the Myrtle Beach facility There are three main production departments

Milling - which involves the cutting and shaping of the club materials

Assembly - which involves the attaching the heads to the shafts and the gripping to the shafts

Inspection - which involves testing club and measuring the quality

GolfTech's production processes have undergone numerous Total Quality Management (TQM) reviews and is considered to be a world class quality manufacturer Last year GolfTech achieved ISO 9000 certification by effectively documenting their quality systems elements

On several occasions GolfTech has researched the possibility of outsourcing its component manufacturing From a cost-benefit and quality point of view outsourcing does not make sense The company plans to control the manufacturing process for the next five years However it will continue to investigate opportunities to outsource certain processes

GolfTech works closely with its materials vendors to manage a high quality, low cost just-in-time inventory system

Quality Control

Several of GolfTech s production people have ISO certification and all have worked through the ISO 9000 experience at GolfTech In the inspection phase of the manufacturing process there are a number of computer-aided quality control processes All quality and customer satisfaction goals have been met within the last vear since the initiation of total quality management The goals of GolfTech s program of quality control can be summarized as follows

- Producing products with features that are perceived by the customer as providing outstanding value
- Delivering the product when promised
- Delivering a product with no defects
- Ensuring the product will not experience early failure
- Ensuring the product can be the demands of constant use and will not fail when used excessively

GolfTech carefully monitors such things as

- The number of defective clubs shipped as a percentage of total clubs shipped
- The number of customer complaints

Excess customer-response time (the difference between deliverv date and date requested by customer)

On-time delivery (percentage of shipments made on or before the scheduled delivery date)

Labor Force

The labor force comes from the Myrtle Beach / Grand Strand area There has been no problem filling the need for laborers The employment pool in the Myrtle Beach / Grand Strand area is sufficient to meet the current and future needs of GolfTech Employee turnover is very low GolfTech has an excellent benefits package that includes health and life insurance pension supplemental pension and thrift plans Educational reimbursement and off-site subsidized child care is also offered Last year GolfTech won the Chamber of Commerce Good Employer Award for the Myrtle Beach area GolfTech was the first manufacturer to win the award

Marketing Plan

Creating and Maintaining Customers

GolfTech has a very high customer retention rate The company actively conducts market research to understand what it is doing right and wrong Surveys have shown that GolfTech customers perceive the GolfTech name as meaning high tech and high quality Customer feedback surveys are included with every GolfTech club and customers are contacted periodically to gain more feedback Focus group studies are conducted six times a year at both local and regional public and private golf clubs

A monthly newsletter called LINKS is sent to all of our customers LINKS tells customers about new products and innovations and announces golf retreats focus groups, seminars and so on LINKS is also available on the World Wide Web at www GolfTech com

Product Pricing Strategy

GolfTech uses a market-based approach to pricing GolfTech's goal is to price its clubs at a 30% premium to traditional middle range clubs These are the clubs used by the average golfer and are typically priced at between $450 to $700 The companv's market research has demonstrated that customers will pay the 30% premium if they see the benefit The GolfTech product line is also priced 30 to 50% less than the super premium clubs with which it also competes

The market-based approach utilized bv GolfTech works as follows Through market analysis and customer feedback GolfTech arrives at a target price per club from which a target profit is subtracted to derive a target cost If necessary GolfTech uses a value-engineering approach to assure that the cost of each club is low enough to provide sufficient profit without sacrificing quality The engineering group works very closely with the marketing organization to ensure that its product development goals match the goals of the marketing organization

Product Positioning

GolfTech has determined from its research that the number one of objective of the average golfer is to improve their enjoyment of the game The best way to enjoy the game more is to play better GolfTech clubs are the best way to help the average user's game The company has successfully run an advertising campaign with the caption reading, They designed their clubs for him / her GolfTech designed our clubs for you The advertisement has a picture of a clearly recognizable professional golfer Unlike other high performance clubs GolfTech has focused its target market design resources and grass root marketing on the average golfer

The company will continue to emphasize additional golfing enjoyment with its products

63

Sales and Distribution Plan

GolfTech's sells its clubs to pro shops and larger national and regional golf retail discounters GolfTech has a staff of account executives who manage these accounts but also utilizes manufacturers representatives (independent contractors) that are located throughout the country Internationally the company has established joint ventures in Hong Kong and in Europe Over the next two years GolfTech plans to pursue the Japanese and Latin America markets

In the past three months GolfTech has experimented regionally with a 1-800 number radio spot It has contracted with an order fulfillment company to take the 1-800 phone calls and fill the orders In the next six months, GolfTech will study the results of this strategy to decide whether to expand it nationally or to curtail the operation

The company forecasts its sales using a simple intuitive but effective approach It surveys its account executives and manufacturers reps three months prior to the start of each fiscal year to gauge sales for the upcoming year

In recent months GolfTech has introduced an Internet WWW site (www GolfTech com) whereby customers can order clubs provide feedback ask questions, and get customer service The WWW site also includes the current and recent past issues of LINKS -- the customer newsletter

Promotional Strategy

GolfTech has utilized a successful blend of promotional activities over the past four years to effectively market its products The company's promotional tactics are quite different from its competitors Here are the current and planned promotional activities

Advertising GolfTech conducts a small amount of image and brand awareness advertising in the golfing trade publications and business publications such as the *Wall Street Journal* It also funds cooperative advertising with its retailing partners The company has also been experimenting with 30 minute Infomercials using a highly respected and recognizable PGA pro

Public Relations Public Relations have proven to be one of the company s best marketing tools and the best source for new customers Last year GolfTech was featured in *Fortune* magazine and it received 1000 orders as a result of this article This article and other articles have helped to spur customer interest while minimizing advertising dollars The company employs the services of Goldman Associates a small west coast PR firm that specializes in the recreation market

Trade Shows GolfTech displays its products at several golfing trade shows and will begin to target some international shows in FY 1997 The company purchased a portable trade booth last year and it should meet our needs for the next 3 years At trade shows GolfTech makes a special offer to first time buyers Trade shows have proved to be a very successful marketing tool At an typical cost of $10 000 per show product sales have averaged $12 500 at each show

Traveling Road Show GolfTech takes its products on the road every six months to the leading golf pro shops to show them the latest products and the company s marketing incentives While this method of promotion is still important its emphasis will reduced over time because of cost considerations

Golf Retreats Another unique promotional grass roots" strategy are the golf retreats in the Myrtle Beach / Grand Strand area GolfTech has been successful at delivering golf retreats that promote unique personal enhancement and team-building program to corporate executives These programs include executive seminars golf clinics, an 18-hole golf event and a follow-up learning exchange activity The mission of the retreats is to introduce executives to an enjoyable way of enhancing performance in business and to show them how to improve their golf game using the technically superior GolfTech clubs These retreats have become extremely popular and many Fortune 500 executives have participated

6V

Direct Marketing GolfTech has begun to experiment with direct marketing advertisements which encourage the customer to call an 800 number to order products or to get more information The company is also experimenting with a direct mail offer which will allow the recipients to purchase GolfTech products on a 30 day free trial offer The results of this mailing are just now being tabulated but it does appear to be quite successful

Refer a Friend Since existing customer referrals are an important source of new business for GolfTech, the company has instituted a program that provides incentives to the telemarketing staff for new referrals and to the existing customer When a customer refers a friend who purchases from GolfTech or a reseller they can earn discounts, free gifts and other incentives

Internet GolfTech implemented its first home page on the web two months ago In addition to being used as a distribution vehicle for the Links newsletter the company is expanding these efforts to include sales through the Internet The company is working with its resellers to find a way that they can partially compensate them for sales in their area By mid 1997 customers will be able to enter secured transactions over the Internet

Financial Plan and Analysis

5-Year Income Statement

The projected operating results for the five year planning period are shown below in the pro-forma income statements Net profits range from $105,000 for year one to almost $3 million by the end of year 5 The growth in profits is attributed to the growth of revenues from the foreign sales

5-Year Balance Sheet

The projected financial position as of the end of each fiscal year in the planning period are in the section that follows

Cash Budgets

Cash budgets for the 5 year planning period are show in the section that follows After year 1 the cash forecast shows positive cash balances without the need to borrow additional funds The 12 month cash budget for year one is also shown in the section that follows

In

For the Years

(all numbers in $00

	1997	1998	1999	2000	2001
REVENUE					
Gross Sales	$20 000	$24 000	$28 800	$34 560	$41 472
Less: Sales returns and allowances	200	240	288	346	415
Net Sales	$19,800	$23,760	$28,512	$34 214	$41 057
COST OF SALES					
Total Cost of Goods Sold	$12 000	$14,400	$17 280	$20 737	$24 882
Gross Profit (Loss)	$7 800	$9 360	$11 232	$13 477	$16 175
OPERATING EXPENSES					
Selling					
Salaries and wages	$2 000	$2 300	$2 500	$2 800	$3 200
Commissions	600	720	870	1 000	1 200
Advertising	200	250	300	350	400
Depreciation	100	100	100	100	100
Other	50	50	50	50	50
Total Selling Expenses	$2 950	$3 420	$3 820	$4 300	$4 950
General & Administrative					
Salaries and wages	$2 000	$2 300	$2 500	$2 800	$3 200
Employee benefits	1 300	1,400	1 500	1 600	1 700
Payroll taxes	900	1 000	1 100	1 200	1 300
Insurance	100	150	200	250	300
Rent	1000	1200	1300	1400	1500
Utilities	100	110	120	130	140
Depreciation & amortization	50	55	60	65	70
Office supplies	75	75	75	75	75
Travel & entertainment	15	15	15	15	15
Postage	50	50	50	50	50
Interest					
Furniture & equipment					
Total G&A Expenses	$4,700	$5,285	$5,760	$6,335	$7,011
Total Operating Expenses	$7 650	$8 705	$9 580	$10 635	$11 961
Net Income Before Taxes	$150	$655	$1 652	$2 842	$4 214
Taxes (on income)	45	197	496	853	1 264
Net Income After Taxes	$105	$458	$1,156	$1,989	$2,950
Extraordinary gain or loss					
Income tax on extraordinary gain					
NET INCOME (LOSS)	$105	$458	$1 156	$1 989	$2 950

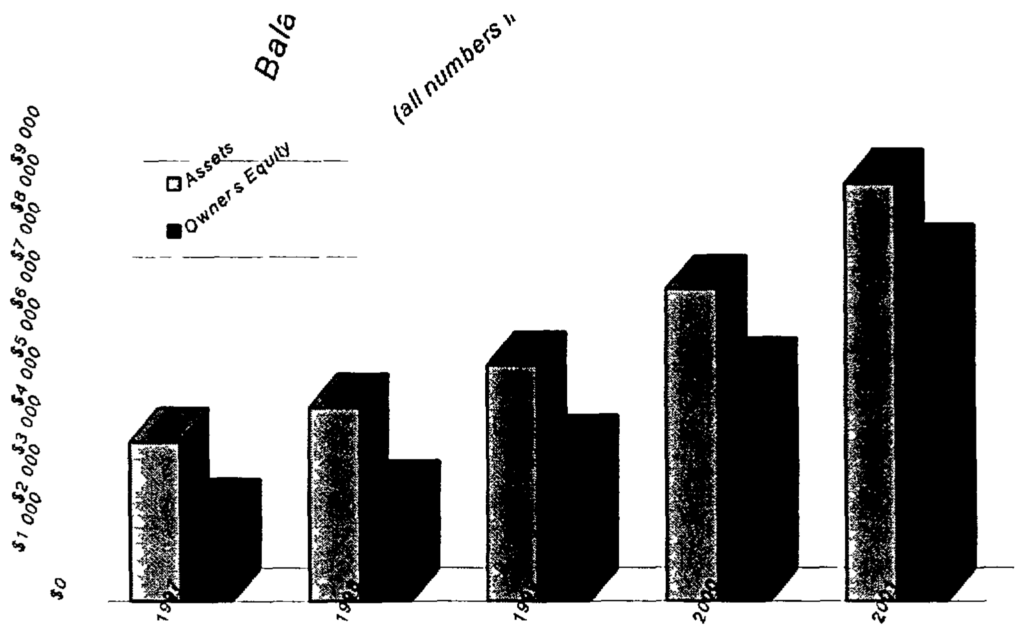
6'1

Ba

For the Year En

(all numbers in $000

	1997	1998	1999	2000	2001
ASSETS					
Current Assets					
Cash	$69	$54	$148	$78	$97
Net accounts receivable	1 000	1 500	1 800	2 000	2 400
Inventory	390	500	800	1 200	1 700
Temporary investment	10	50	100	1 000	2 000
Prepaid expenses	10	20	30	60	120
Total Current Assets	$1,479	$2,124	$2,878	$4,338	$6,317
Fixed Assets					
Long term investments	$0	$50	$50	$50	$50
Land	500	500	500	500	500
Buildings (net of depreciation)	1 000	1 000	1 000	1 000	1 000
Plant & equipment (net)	300	300	400	500	700
Furniture & fixtures (net)	10	10	20	40	60
Total Fixed Assets	$1,810	$1,860	$1,970	$2,090	$2,310
TOTAL ASSETS	$3,289	$3,984	$4,848	$6 428	$8 627
LIABILITIES					
Current Liabilities					
Accounts payable	$800	$1 250	$1 300	$1 400	$1 500
Short term notes	5	4	3	2	1
Current portion of long-term notes	0	0	0	0	0
Accruals & other payables	50	50	50	50	50
Total Current Liabilities	$855	$1,304	$1 353	$1,452	$1,551
Long-term Liabilities					
Mortgage	$100	$80	$70	$60	$0
Other long term liabilities	500	400	300	200	0
Total Long-term Liabilities	$600	$480	$370	$260	$0
Shareholders' Equity					
Capital stock	$1 000	$1 000	$1 000	$1 000	$1 000
Retained earnings	834	1 200	2 125	3 716	6 076
Total Shareholders' Equity	$1,834	$2,200	$3,125	$4,716	$7,076
TOTAL LIABILITIES & EQUITY	$3 289	$3 984	$4 848	$6 428	$8,627



Assets and equity growth earnings retained at a rate of 20% per year

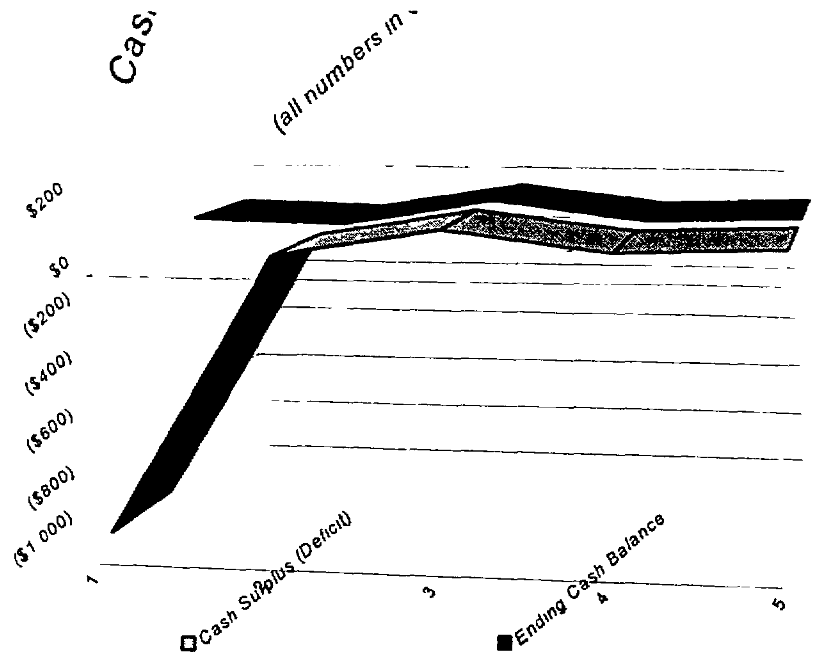
C

For the Year

(all numbers in $

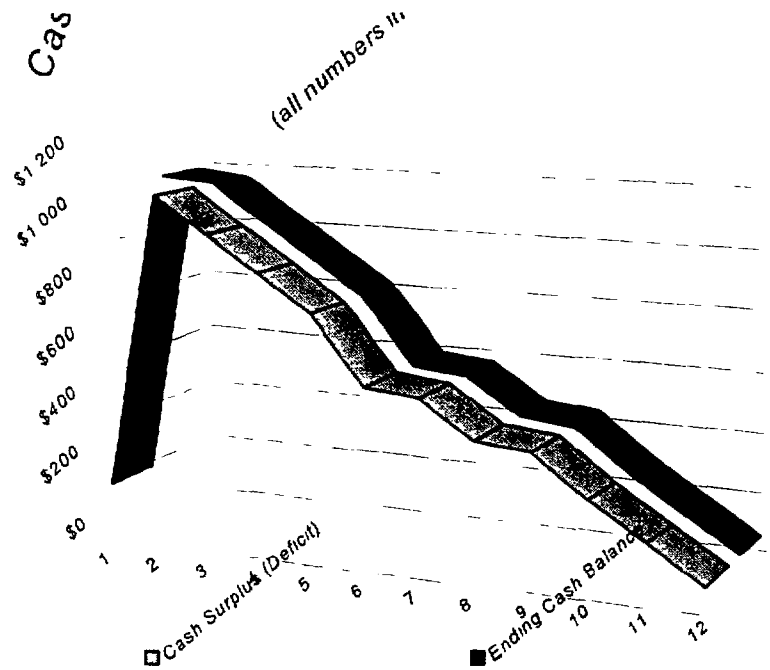
	1997	1998	1999	2000	2001
Beginning cash balance	$1,000	$69	$54	$148	$78
Cash from operations	18,485	20,196	21,394	22,321	23,197
Total Available Cash	$19,485	$20,265	$21,448	$22,469	$23,275
Less					
Capital expenditures	$1 000				
Operating Expenses	19,200	$20,001	$21 100	$22 201	$23 000
Interest	48	40	30	20	8
Dividends	0				
Debt retirement	96	100	100	100	100
Other	72	70	70	70	70
Total Disbursements	$20,416	$20,211	$21,300	$22,391	$23,178
Cash Surplus (Deficit)	($931)	$54	$148	$78	$97
Add					
Short-term loans	$0				
Long-term loans	500				
Capital stock issues	500				
Total Additions	$1 000	$0	$0	$0	$0
Ending Cash Balance	$69	$54	$148	$78	$97

70


Cas
(all numbers in
$200
$0
($200)
($400)
($600)
($800)
($1 000)
1
2
3
4
5
Cash Surplus (Deficit)
Ending Cash Balance

For the Year (all numbers in $000)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Beginning cash balance	$1 000	$1 182	$1 164	$1 046	$928	$810	$592	$574	$456	$438	$305	$187
Cash from operations	1 800	1 600	1 500	1 500	1 500	1 400	1 600	1 500	1 600	1 485	1 500	1 500
Total Available Cash	$2 800	$2 782	$2 664	$2,546	$2 428	$2 210	$2 192	$2 074	$2 056	$1 923	$1 805	$1 687
Less												
Capital expenditures	$1 000											
Operating Expenses	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600	$1 600
Interest	4	4	4	4	4	4	4	4	4	4	4	4
Dividends	6	6	6	6	6	6	6	6	6	6	6	6
Debt retirement												
Other	8	8	8	8	8	8	8	8	8	8	8	8
Total Disbursements	$2 618	$1 618	$1 618	$1 618	$1 618	$1 618	$1 618	$1 618	$1 618	$1 618	$1 618	$1 618
Cash Surplus (Deficit)	$182	$1 164	$1 046	$928	$810	$592	$574	$456	$438	$305	$187	$69
Add												
Short term loans	500											
Long term loans												
Capital stock issues	500											
Total Additions	$1 000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Ending Cash Balance	$1,182	$1 164	$1,046	$928	$810	$592	$574	$456	$438	$305	$187	$69


Cas
(all numbers ii
$1 200
$1 000
$800
$600
$400
$200
$0
1
2
3
4
5
6
7
8
9
10
11
12
Cash Surplus (Deficit)
Ending Cash Balanc

73