FD Solutions
The flexible Finance Director service

Group exercise

TD Limited

The story so far	Tilly and Daniel have recently been made redundant. Two years ago they started buying and selling hair products to salons to supplement their income.
They've developed a new product and sold 100 packs **They have applied for a merchant facility and expect most customers to pay by credit card**	They have developed a new product which they get manufactured by a third party. They have sold 100 packs of the new product to their existing salons over the past few months. The salons have given some feedback and they need to spend a further £30,000 to incorporate the suggested improvements.
They are starting a business	They have decided to start a business to develop and sell this product. They plan to develop additional products in the future.
They have orders for the new product	They have orders for six months from June 2013 for 500 packs (in total) from existing customers.
Forecast information is based on results and research	The current product sells in a pack for £100 per pack and costs £40 to produce, pack and deliver, (a gross profit of 60%). Their supplier has indicated that they will be able to decrease the cost for orders in excess of 500 and Tilly & Daniel expect the margin to increase to 70%. They have found a supplier to complete the development for £30,000 in March with completed product available to ship in May. They plan to take on two part-time employees, annual cost £25,000 to help with the business from April and they have found a small office which they can rent for £4,000 per year. Other overheads have been confirmed at £6,000 per year. They have savings and do not plan to take any drawings from the business themselves until September. They will take drawings for £36,000 per year at that point and increase this to £50,000 once the business is making reasonable profits. They plan to spend £10,000 on computers and office equipment in March. And then expect £2,000 per year before upgrading in five years' time.

Group exercise

They have prepared a forecast

They have some of their own cash to put in the business

They have some savings which they plan to start the business. They have entered their assumptions into an App from FD Solutions and it has indicated that they need £X of cash.

Cash required

They would like to obtain cash from others, possibly equity or possibly a loan.

EXERCISE 1

Your task is to use the App to answer the following questions

1. How much cash do they need if they can get:

   60 days credit from their suppliers and,

   all customer sales are by credit card (assume 7 days for credit card companies to pay over cash) ?

2. When do they get to monthly cashflow breakeven?
3. What is the EBITDA in year 5?

Hint: the *Settings* allows debtor and creditor days assumptions to be flexed.

When changed, tap the *Close* button to return to the *Home* screen.

Tapping the *Cash Flow* tab refreshes the one-year and five-year cash flow graph and cash requirement.

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EXERCISE 2

Your task is to update the figures produced in exercise 1 based on the following information:

1. Following the success of their first product, they now plan to introduce a new second product range exactly 12 months after the launch of the first product.
2. The new product range will cost £20,000 to develop.
3. They expect to sell 300 units of the new range in the first year increasing to 500 units each year thereafter. The sales price and gross margin will be the same for both product ranges.
4. They will need to employ one additional part time employee at an annual cost of £12,500 and their overheads will increase by £2,000 per annum.
5. All other costs and settings will remain the same.

After you have updated the app then answer these questions:

1. How much cash do they now need if they introduce the new product range?
2. When do they get to monthly cashflow breakeven now?
3. What is now the EBITDA in year 5?
4. Do you think it makes sense to add the new product range?