

BUSINESS PLAN

“Sterling Saddle Pads”

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Sterling

Sterling Custom Fitted Saddle Pads

Ride the win!



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Comfortable products ensuring the health and safety of equestrians and horses.

Executive Summary

Would you expect to win a marathon with rocks or burrs in your shoes? No!

Yet, horses are often expected to perform fantastical athletic maneuvers while enduring pressure points, friction burns, hair rubbing, or pinching equipment. Ill-fitting horse equipment is like bad shoes on your feet!

Supplies like tack and grooming equipment generate \$6.992 billion annually. Equestrians spend an estimated \$500 million per year on chiropractic work, bio-therapy, new saddles, and training to eradicate dangerous behaviors potentially caused by pain and soreness.

The United States has 12% of the world's horse population, 9.2 million horses; 2.7 million are used for competition. Soreness in the body, however, considerably limits the horse's ability to compete.

Entering the growing equestrian supplies market, Sterling is poised to generate \$52 million ATOI within four years offering a customizable product targeted toward competition horses. Orthopedic saddle pads became a market segment in 2000. A few firms currently operate, but none is dominant.

Currently, there are no saddle pads on the market that allow customization of support, thickness, and shape. Riders make due by rolling towels, taping cut up yoga mats, and other makeshift antidotes to try to achieve physical harmony with their horse.

Sterling will produce saddle pads incorporating patented materials including Miracle Foam and X-Static® - The Silver Fiber™. Miracle Foam, developed by NASA, is a revolutionary heat & pressure sensitive substance that gently yet precisely molds to contours and responds to temperature. X-Static, made of active silver, is naturally antimicrobial, anti-odor, and cool-wearing.

This is a patent-pending product to improve a horse's competitive career. Sterling will capture the early-adopters comprised of affluent equestrians involved in International competition with high visibility in the equestrian world. Later entrants will be left with horse owners who typically do not invest as heavily in their horse's physical well-being.

Vision Statement

Commanding a price-premium as “the” luxury saddle pad, Sterling brand products will deliver quality through state of art technology and functionality manufactured into every product. Sterling will deliver a custom fitted saddle pad to enhance a horse’s competitive edge, resulting in vastly improved performance, winning, and competition longevity. Incorporating major race-tracks and competitions into the Sterling community, Sterling products will be worn by winners and have relevance to all levels of equestrians (Domestic and International). Equestrians follow winners. There will be a Sterling luxury saddle pad on every winning race and competition horse.

Vision Trigger

Ride the win!

Mission Statement

Sterling is founded on the belief that there is an intrinsic value and personal reward in delivering luxury equestrian products that exceed customer expectations. It is our mission to serve those who are as passionate about horses as we are. The principles and values guiding our company and our product offerings are rooted in the love of horses.

Partnering with customers, Sterling will demonstrate the value and benefits of its products. We believe that our products must offer safety, comfort and value, in equal measure, to both horse and rider. Sterling will provide our customers, and their horses, with comfort and quality in every product.

Sterling’s passion for people and horses will show in its every action. We strive to create a work environment in which every employee shares our values, can thrive, and will achieve their full potential within our organization and the equestrian community.

Very Special Rider Program Therapeutic riding is an emerging field in which horses are used as a tool for physical therapy, emotional growth and learning. Most therapeutic riding programs provide equine assisted activities for children and adults with disabilities, youth-at-risk, veterans, and their families in an inclusive, community setting. To do their job properly, therapy horses have to be comfortable.

Sterling’s custom fitted saddle pads will improve the comfort of therapy horses and the safety of their “very special riders.” This segment will be the cornerstone of Sterling’s community involvement program.



Peaches Winner of the 2002 NARHA Region 3 Horse of the Year Award and “very special rider,” Drew. (*Northern Virginia Therapeutic Riding Program, Inc.*)

Objectives

Sterling Equine		Income Statement - Financial Projections			
(In thousands)					
Year		2008	2009	2010	2011
Custom Fitted Saddle Pads Unit Demand		40	100	185	321
Revenue (@ \$500 ea)		\$ 20,000	\$ 50,000	\$ 92,500	\$ 160,500
Cost of Goods Sold	Variable Assembled Cost @ \$200	8,000	20,000	37,000	64,200
Gross Profit		12,000	30,000	55,500	96,300
Operating Costs					
	Selling, general and administrative expense	5,609	5,965	6,606	7,319
	Research & Development	1,500	2,000	2,500	3,000
Total Operating Costs		7,109	7,965	9,106	10,319
Operating Profit		4,891	22,035	46,394	85,981
Taxes (@ 40%)		(1,956)	(8,814)	(18,558)	(34,392)
ATOI		2,935	13,221	27,836	51,589
Return on Sales		15%	26%	30%	32%

- Increase brand awareness to 50% of competitive equestrians by Yr 4.
 - Yr 2: Brand Awareness = 30%
 - Yr 3: Brand Awareness = 40%
 - Yr 4: Brand Awareness = 50%
- Achieve year over year growth in unit demand.
 - Yr 2: Unit Demand = 100k (+150%)
 - Yr 3: Unit Demand = 185k (+85%)
 - Yr 4: Unit Demand = 321k (+74%)
- Achieve market penetration of greater than 10% of all competition horses¹.
 - Yr 2: Market Penetration = 4%
 - Yr 3: Market Penetration = 7%
 - Yr 4: Market Penetration = 12%
- Invest in research and development to bring at least one product enhancement or new product to market annually. (Generate enough cash to grow R&D expenditures year over year.)
 - Yr 2: R&D Budget = \$2.0m
 - Yr 3: R&D Budget = \$2.5m
 - Yr 4: R&D Budget = \$3.0m
- Consistently generate return on sales² greater than 20%.
 - Yr 2: Return on Sales = 26%
 - Yr 3: Return on Sales = 30%
 - Yr 4: Return on Sales = 32%




¹ Expressed as Unit Demand / 2.7m competition horses in the United States

² ATOI / Revenue

Pain

An ill-fitting saddle can cause pressure points and unbearable pain. In an attempt to alleviate discomfort, a horse may buck, rear, or exhibit other dangerous actions potentially harmful to itself and its handler. Equestrians spend \$500 million per year on chiropractic work, bio-therapy, new saddles, and training to eradicate these behaviors.

Competitors

Company / Product	Strengths	Weaknesses
Blazing Trails Enterprises Impact Gel Pad 	<ol style="list-style-type: none"> 1. Product uses 'gel' to fill gaps between horse's back and underside of saddle. 2. Product claims to reduce energy waves transferred to horse's back during exercise. 3. Product available in a variety of shapes for various disciplines. 	<ol style="list-style-type: none"> 1. Product does not allow user to customize shape or positioning of cushion. 2. No references to patents in any literature or collateral. May be susceptible to duplication. 3. Firm does not have affiliation or sponsorship of any major competitions.
Supracor Cool Grip Pad 	<ol style="list-style-type: none"> 1. Product uses medical grade 'honeycomb'. 2. Product claims to cool horse's back with perforations in the honeycomb to allow airflow. 3. Product available in a variety of shapes for various disciplines. 	<ol style="list-style-type: none"> 1. Product does not allow user to customize shape or positioning of cushion. 2. Product not designed for stand-alone use (must be used with another pad for competition). 3. Limited distribution and low brand awareness.
Equipedic Comforpedic Pad 	<ol style="list-style-type: none"> 1. Product contains ConforPedic Impact Reduction Material™, its trademarked name for miracle foam. 2. Product claims to contour and flex with a horse's movements to absorb shock. 3. Product available in a variety of shapes for various disciplines. 	<ol style="list-style-type: none"> 1. Product does not allow user to customize shape or positioning of cushion. 2. Sold through dealers, though not widely distribution and very low brand awareness. 3. No veterinary or equestrian endorsements.

Like EquiPedic, Sterling's custom fitted saddle pads use miracle foam to prevent sore backs, keep horses cooler and provide comfort. Differentiating Sterling's product, removable/re-positionable miracle foam inserts are firmer in the front and rear sections, providing the horse with special protection against the stresses of maneuvers like jumping, roping and racing. Another differentiation is the lining against the horse's back, patented X-Static® - The Silver Fiber™. The addition of silver makes the product naturally antimicrobial, anti-odor, and cool-wearing. Sponsorships, equestrian and veterinarian endorsements, and favorable

scientific testing results will ensure Sterling has significant brand awareness in the market.

Industry Trends

The horse industry directly produces goods & services of over \$39 billion annually, and has a total impact over \$102 billion on the U.S. Gross National Product. Contributing more than 25% each to the industry's total value of goods and services, racing, showing and recreation are growing in popularity.

Horse ownership, as reported by the American Horse Council (AHC), grew 33% between 1996 and 2005; memberships to United States Equestrian Federation (USEF) grew 31% between 1997 and 2006. 2006 membership numbers for a selection of breed and horse-sport groups was slightly less than 600,000. U.S. industry statistics include:

- 2.3 million horse owners
- 85% women
- 52% married
- 60% managerial or professional employment
- 38% net worth over \$500,000
- Spend \$7,200/yr on horse-related products

The equestrian customer can be rider, owner, trainer, groom or spectator. Research has shown this market consistently reaches an affluent, upwardly mobile market segment that is passionately loyal to their horse and brand loyal to products and services that support their equestrian interests. Sterling will have a loyal buyer *and* a marketing voice.

Politically, the equestrian community is influential. An example is the introduction of a bill preventing the slaughter of horses for meat. While it has not yet become a law, it was passed by the U.S. House of Representatives³. The “pro-horse” bill and favorable political climate strengthen the marketability of Sterling’s product.

³ The Senate adjourned for the year before voting on the bill.

Marketing

Product



Price \$500/unit – Variable cost is estimated at \$200/unit and total cost is \$377.73/unit (Yr 1). Competitors’ products range between \$150 and \$500, depending on the size and shape. To achieve a 35% margin and develop the enhanced perception of quality, Sterling will enter the market at the high price point.

Place Distribution through dealers, especially high-end horse furnishing suppliers like Beval and Sergeants that have retail locations at major event venues. This allows access to products at major competitions, as well as through catalogue and web order. Enhancing credibility, veterinarians and equine chiropractors will also be prospective dealers, offering the product in conjunction with medical services.

Promotion \$5 million/year - The United States Equestrian Team will use our product during the 2008 Beijing Summer Olympics. With more Olympic gold medals in equestrian disciplines than any other country, the U.S. is a leader in horse supplies and veterinary advancements. In addition to the Olympics, marketing promotion will include product placement⁴ and advertising in television programs (America’s Horse⁵, Down Under Horsemanship⁶), during ESPN equestrian coverage, and in major industry trade publications including Blood Horse and Equine Chronicle.

⁴ Product placement in movies, television shows, and through rider endorsements.

⁵ A show produced by the American Quarter Horse Association which airs on their website and the Outdoor Life Network to over 370,000 AQHA members monthly.

⁶ A show with world-famous horse trainer and clinician, Clinton Anderson, focusing on natural horsemanship techniques with an International flair. Airs on RFD-TV nightly, with new episodes weekly.

Management

Jennifer Barbee, owner, will be the driving force behind this venture. A life-long equestrian, she's an active competitor. A financial executive with a Fortune 100 company, Jennifer earned a B.S. [Business Administration (Marketing / Economics)] and is pursuing her MBA. Her first entrepreneurial venture became the nation's leading horse valuation firm in 3 years.

Dr. John Jaegar, DVM, is retained for R&D and veterinary expertise. A graduate of Cornell University, Dr. Jaegar has over thirty years of experience with horses, including ownership.

Keeping pace with unit demand, staff increases from four order processing employees to thirty-eight by Year 4.

Legal Structure

Operating as a Limited Liability Company (LLC), Sterling will have advantages which include:

- investors who can be corporations, partnerships and foreigners,
- pass-through taxation with limited liability advantages of a corporation,
- the ability to establish articles of organization or operating agreement,
- the appeal of owners as members who along with managers and officers have the rights, obligations and power set forth in the operating agreement,
- liability limited to investment,
- an owner's full participation in managing the company,
- the lack of shareholder restrictions including the ability to have multiple classes of securities and the advantages of both a limited partnership and S corporation without their drawbacks.

Members elect managers who, like board of directors, are responsible for managing the business, property and affairs of the company.

Start Up Capital

Sterling Equine	Start Up Capital - Financial Projections (\$000)
Property, Plant & Equipment	
Security Deposit for Facility Lease (100k sq ft)	25
Manufacturing, Tooling & Assembly Line (useful life 5 years)	150
Racking and Finished Goods Inventory Storage (useful life 20 years)	100
Forklift, Stretch Wrap Machine, etc. (useful life 5 years)	75
Computer System (i.e. Oracle; to be amortized over 7 years)	150
Raw Materials (30 days of inventory on hand @ \$200 cost per unit)	670
	1,170
Conversion Expense	
Utilities	30
Labor (4 employees for 1 month)	25
	55
General Administrative & Selling Expense	
Legal Consulting (Patent, Incorporation)	15
Research & Design Consulting	100
Office Supplies & Equipment	20
Travel	85
Marketing (Collateral, website development)	50
Marketing (Sponsorships)	250
	520
Start Up Capital Requirements	\$ 1,745

1. \$350k for Property, Plant & Equipment - assets required to produce and warehouse the product. Start up costs include \$25,000 for security deposit on 100,000 sq. ft. manufacturing, office, and warehousing facility; \$150,000 for tooling and assembly equipment; \$100,000 for an inventory handling and racking system; and \$75,000 for a forklift, stretch wrap machine and other fixed assets.
2. \$150k for Computer System & Software - Enterprise Resource Planning system including accounting, human resources, inventory & order management elements. An ERP system like Oracle, plus Microsoft Office and computer terminals can be installed for about \$150,000.
3. \$670k for Raw Materials - sub-components of product include fabrics, miracle foam, thread, and leather. This start up cost is anticipated to cover 30 days of initial inventory (3,333 units). Additional inventory costs would be incurred as units are produced, striving for 45 days of inventory on hand.
4. \$30k for Utilities (phone service, internet service, electricity) – to be paid in advance monthly, beginning with the first month of production.
5. \$25k for Personnel (includes wages, benefits and taxes for staff to perform administrative and manufacturing functions) – assumes that owner sets up all other arrangements and labor costs begin one month prior to production for recruiting and training of four order entry employees.

6. \$15k for Legal Services – to incorporate business (\$3.5k), patent protection (\$4.5k), insurance (\$7k).
7. \$100k for Research and Development - proof of concept, test production methods.
8. \$20k for Office Supplies and Equipment – including phone, fax, paper, and printers.
9. \$85k for Travel – attend competitions and races to ensure thorough understanding of customer needs; meet with veterinarians and retailers to establish dealer relationships for product distribution.
10. \$300k for Marketing & Public Relations – to develop website (\$15k), collateral (\$35k), and become corporate sponsor of major equestrian organizations (\$250k). Additional funds in future years for advertising campaigns and customer education.

Operating Capital

Estimated working capital requirements for Yr 1 = \$518k

Sterling Equine		Working Capital - Financial Projections
		(\$000)
Inventory		
	Raw Materials (45 days of inventory @ \$200 cost per unit)	1,000
		1,000
Accounts Payable		
	Conversion & GASE Expenses (60 days)	1,185
		1,185
Accounts Receivable		
	Sales with terms of net 30	(1,667)
		(1,667)
Working Capital Requirements		<u>\$ 518</u>

Exit Strategy

Giants such as Dow Chemical and DuPont are developing ways to use silver for antibacterial textiles. If they are not immediately drawn to buy Sterling in Year 4, horse care industry-specific giants such as Farnam and Dover, will jump at the chance to purchase this business for a projected \$516m⁷.

⁷ Estimated at ten times projected Year 4 ATOI (roughly \$516m)

Contingency Analysis

Sterling has developed contingency plans for three factors which could undermine its success.

- Equestrians do not immediately see the need for custom fitted saddle pads: Rider testimonials, scientific studies and veterinarian endorsements of the product's therapeutic benefits will be strongly presented in our advertising.
- Competition horses do not demand forecasted units: Sterling will focus on "work" horses like search & rescue and mounted patrol units. Equipment for such horses is usually part of an institutional buying process not reliant on discretionary income of individual equestrians.
- U.S. does not adopt the product: Sterling will attack the other 88% of the world's horse population. We are confident the foreign market can account for a significant portion of purchases.



Sterling

Ride the win!