

Executive Summary

Horizon Manufacturing Inc. is a Saskatchewan, based privately-owned business that manufactures a raw formulation dog food, called Pure, for placement in the western Canadian market. Today, the Canadian pet food market is worth an estimated 650 million dollars annually. The raw formulation dog food market makes up approximately 3% of this total market.

The raw formulation market is experiencing a high growth rate at the present time. This market is primarily made up of people that have a large portion of disposable income, and are educated in the health benefits of feeding raw formulation dog food. Competition within this market is small, with no single manufacturer holding a large share of the market.

Pure is a premium raw frozen canine diet that is made of high-grade beef, human-grade vegetables, chicken, and bone meal. Pure will be competitively priced within the raw formulation market. Horizon intends to market 375 tonnes of Pure in the first year and grow to 600 tonnes in subsequent years. Pure will be distributed in Alberta through a strategic partnership with High Mountain Distributors Inc. in Calgary, to specialty pet supply retailers and veterinary clinics.

Pure will be marketed as a premium product in a premium marketplace. Horizon will emphasize that Pure is a high quality Canadian made product, containing a large proportion of beef.

Manufacturing will take place in Rosthern, Saskatchewan, Horizon believes there is a cost advantage to production in rural Saskatchewan as raw materials can be sourced locally.

Horizon will employ two managers and three operations personnel out of the Rosthern location. A marketing and sales representative will be shared with High Mountain Distributors.

The initial capital investment required is \$345,000, of this amount 50% will be financed through debt, and the remainder through equity capital. Projected sales of Pure in the first year will exceed 1 million dollars. Within 10 years, projected sales will exceed 2 million dollars a year. The projected internal rate of return for Horizon Manufacturing Inc. is 74%.

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1.0 Business Description

1.1 Industry Overview

The Canadian pet food industry has been consolidated and is largely controlled by US-based multinationals. The pet food market is worth an estimated \$650 million annually and almost 90 % of the pet food sold in Canada is manufactured by U.S. owned multinationals (USDA, 2000). Canadian owned companies do not have strong brand names and have to combine brand and private label production in order to compete with US-based companies.

Traditionally, the majority of pet food was sold through grocery retailers, however, in the last 15 years, a shift towards “big box” pet supply stores has taken place. PetSmart, PetLand, Petcetera, and Petco are examples of multifaceted pet food and pet accessory retailers. These retailers specialize in offering a wide array of pet services, including grooming pet sales, and veterinary services. With respect to pet food sales, these specialty pet stores make up more than 20% of the US-based market (USDA, 2000).

Veterinarians and veterinary clinics are a part of the pet food retail market that was not around 15 years ago. At one time, veterinarians only prescribed specialty medicinal pet foods to animals with illnesses. Now, veterinarians are promoting not only prescription pet food, but also premium maintenance pet food formulations, as profit margins for premium pet foods are high, which has allowed veterinary clinics to enhance revenue in their businesses. Today, veterinarians and kennels make up approximately 6% of total pet food sales in the US.

Although the pet food market in the US and in Canada is growing and continually changing, raw formulations make up only 1 to 3% of the total market (Skotheim, 2004). Although this portion of the market is small, it experiences the greatest profits and the highest growth in the industry, as consumer ideals change.

Horizon Manufacturing Inc. intends to capture a portion of the specialty pet food market, producing a raw formulation diet and marketing it through specialty pet store retailers, veterinarians, and kennels.

1.2 Company Description

Horizon is a Saskatchewan-based, privately-owned company that manufactures a raw, ready-to-serve formulation for canines that is marketed under the trade name Pure. The company's manufacturing and accounting operations will be based out of Rosthern, Saskatchewan, while distribution and marketing will be based out of Calgary, Alberta. The two founders will manage Horizon out of Rosthern, while a marketing representative will be stationed in Calgary. The production of Pure will be accomplished by three production employees. In total horizon will employ six people.

1.3 Product

Pure is a premium raw frozen canine diet that is made of high-grade beef, human-grade vegetables, chicken, and bone meal. It is a ready-to-serve diet that meets the nutritional requirements of canines, and is offered in boxes of 12, 24, and 32- 8oz patties.

2.0 The Market

2.1 Placement

Horizon will initially place Pure in Calgary markets, as premium pet sales in Alberta are much higher than in Saskatchewan. Pure will then be placed in Saskatchewan markets, and concentration will focus on small, specialized pet stores. By the end of the first year, Horizon intends to place Pure in markets in British Columbia. American markets are not an option for Horizon at the present time due to trade restrictions associated with BSE.

2.2 Competition

Horizon will market Pure as a premium raw product, so there will be no competition from large multinational brands like Purina, Iams, Eukanuba, or Nutro. Currently there are few manufactures of raw pet food in Canada. These manufacturers are small, poorly integrated, under-capitalized, and hold a very negligible portion of the raw formulation market. The competitors that Horizon will encounter are listed below. The prices for competitors' products range from \$3.74 to \$16.11 per kilogram of raw beef dog food.

Urban Carnivore Saskatoon, SK

- \$11.61/kg
- Manufacturing since 1998
- Started as kennels 20 years ago.
- Expensive pet food, seen as premium of premium food
- Offered in 52 locations in Western Canada

Mountain Pet foods, Edmonton, AB.

- \$3.74/kg
- Started as kennels, in production since 2000
- Cheaper alternative to Urban Carnivore
- Manufactured in Edmonton, AB and Coquitlam, B.C.
- Offered in 111 locations in Western Canada

Amore Pet Foods, Richmond B.C

- \$8.69/kg
- Manufacturing since 1999
- Wide variety of products
- Distributes to your door in USA
- Offered in 100 locations in Western Canada

Raw Advantage Pet Food, Stanwood Washington State

- \$16.11/kg
- Certified Organic ingredients
- Very expensive
- Large scale producers
- Focused mostly on American markets especially, California and Washington.

Spencer Farms Pet Food, Rural Saskatchewan

- Uses elk and elk antler velvet in formulation
- Relatively new in pet food manufacturing
- Antler velvet in product acts as anti arthritis medicine

2.3 Pricing

Horizon intends to price Pure as a premium product in a premium market. Pure will not be the highest-priced pet food in the raw formulation market, but will be priced in between the lowest and highest-priced brands. The consumer must realize that Pures lower price is not an indication inferior raw food because of a lower price than the competition, but as a product that is more affordable because of the cost advantages derived from production in Saskatchewan.

Premium products only have one opportunity to set a price. Once in a specialty market, a price increase can be devastating. Consumers will not pay more for what they have already been paying, and therefore will find alternatives. Through operational research, Horizon intends to price Pure to wholesalers at \$2.88 per kg. A shared distributor/retailer suggested retail price of \$4.89/kg, is a 70% mark-up in price.

2.4 Positioning

2.4.1 Consumer Positioning

Horizon intends to position Pure as a premium Canadian-made product that contains human-quality ingredients and no additives. Pure will be scientifically tested to prove the health benefits of feeding a raw formulation diet. Pure will be positioned as the best product on the market, the evolutionary correct, most natural diet for canines. Pure is a unique product with a high portion of beef and vegetable, as well as chicken and bone meal. Pure is a healthy, balanced diet for dogs that tastes great.

2.4.2 Retailer Positioning

For retailers, profit margin is a primary concern. Because of Horizon's unique position in pet food production, it produces pet food at a much lower cost than its competitors. This low cost of production is passed on to distributors and retailers, who will make a higher profit margin on Pure, than on other premium foods. Horizon will package Pure in high quality, easily stackable boxes, with eye catching, informative labels. Pure will be the retailers' choice for profit margin, aesthetics, and ease of handling.

3.0 Production

3.1 Development Plan

In the first year Horizon intends to market 5 tonnes per month and within 1 year increase to approximately 50 tonnes per month. The first year total production will be 375 tonnes of finished product. Within 5 years, Horizon plans to consistently produce 50 tonnes of finished Pure every month and, at this production level, Horizon will be producing 600 tonnes of finished product each year. The ingredients for Pure include beef, vegetables, chicken, and bone meal. Beef will be supplied by local abattoirs and chicken by Grannies Processing in Winnipeg. Bone meal will be supplied by Saskatoon Processors Ltd. Horizon will look to establish local sources of vegetables, as well as receiving produce from Western Grocers Ltd. in Saskatoon

3.2 Site Plan

Horizon will buy 10 acres of land $\frac{1}{8}$ of a mile west of Rosthern and will build a 2000 square foot facility on the land (Fig. 1.). The site will be purchased for \$12,000. The town of Rosthern has agreed to supply the site with water and sewer. Power and gas are readily available.

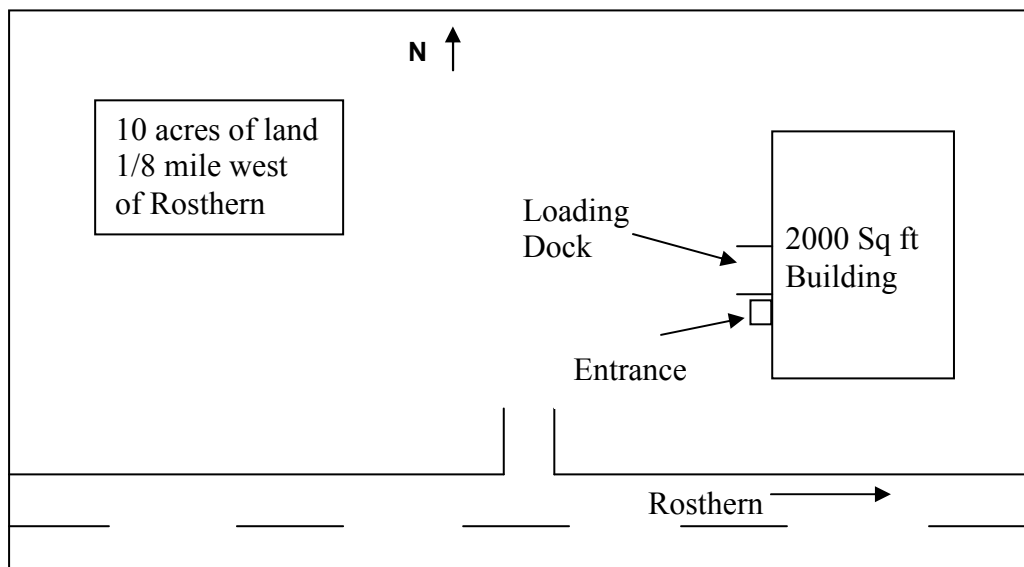


Figure 1. Site plan for Horizon.

3.3 Building Plan

The building will be a simple 2000 square foot wood framed facility, containing a 225 square foot cooler (2°C) and an equal sized freezer (-20°C) (fig .2.). The 600 square foot production area will be maintained at 4°C to reduce the potential for bacterial growth. The remainder of the building will house a loading dock, offices, a lunchroom, and general cleaning/washroom facilities. The production floor will have areas for the following: weighing, mixing, and packing.

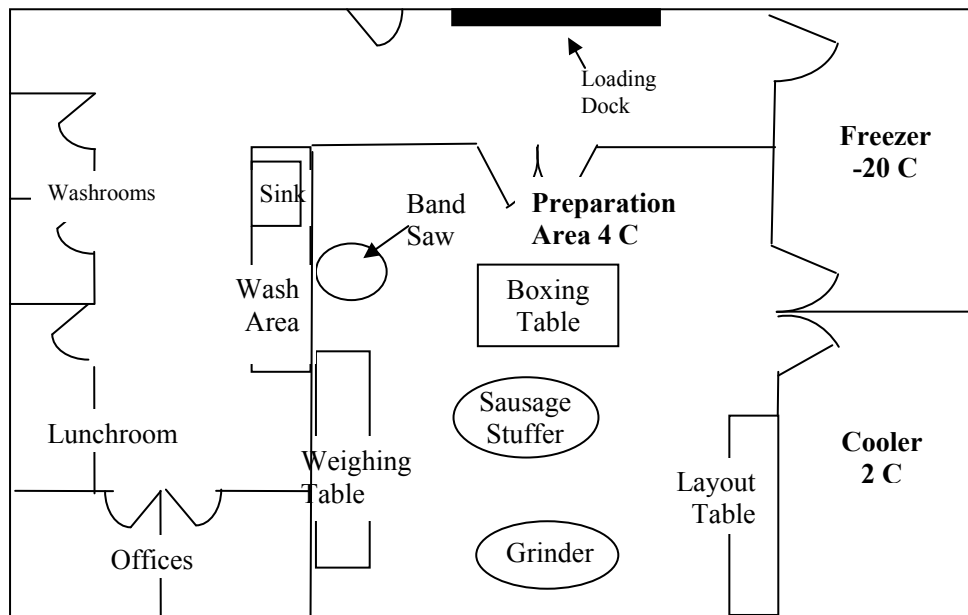


Figure2. Floor plan of Horizon

3.4 Production Process

Production requires the weekly pick up of killed, gutted, and deboned beef at abattoirs, vegetables at Western Grocers, and bone meal at Saskatoon Processors (Fig. 3). These products will be picked up by the production staff with a truck and trailer, then delivered, and stored in the 2°C cooler. The chicken will arrive weekly from Grannies Processors on one of their Saskatoon bound trucks.

The beef, vegetables, and chicken are ground then weighed. The ground products are mixed according to the 45% beef, 40% vegetable, 10% chicken, and 5% bone meal ratio. This mixed product is stuffed into sausage casings, frozen in the -20°C freezer and cut into 8oz patties with a band saw. Finally, Pure is boxed and then placed on pallets. After packaging, it is shipped to Calgary for distribution.

There are no HACCP or CFIA guidelines to follow for pet food production, however, Horizon intends to incorporate HACCP components and make the facility partially HACCP ready. Incorporating HACCP into production will add some marketability to Pure, however, so doing, also adds significant costs. Each animal will be tested for BSE by Prairie Diagnostics Ltd.

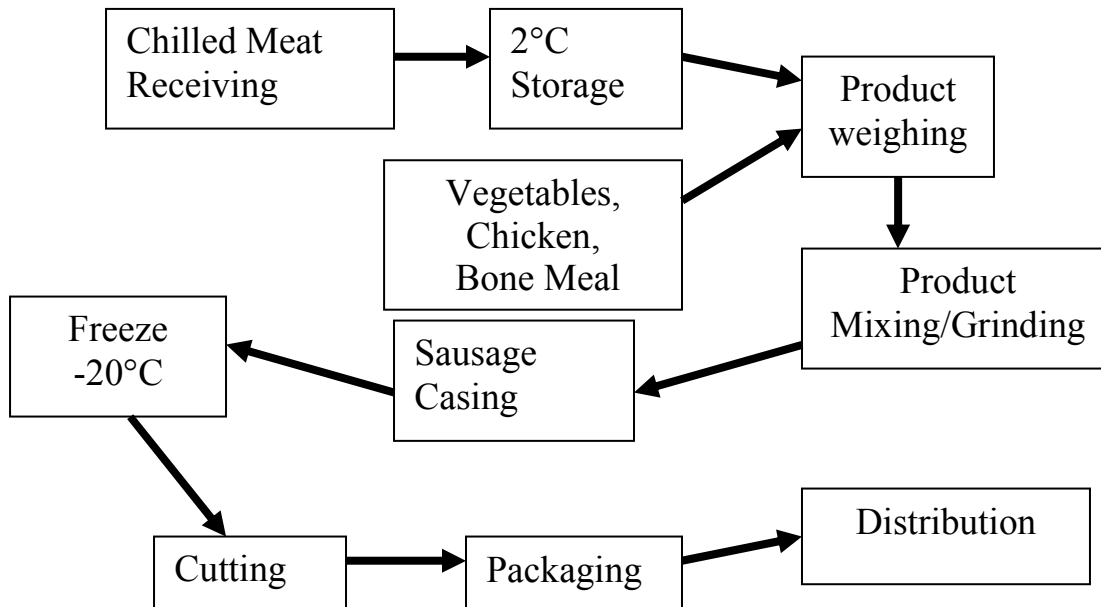


Figure 3. Flow of work for Pure pet food production.

An average day at Horizon will start at 8 a.m. and end at 5 p.m. In the morning, the floor crew will take out ingredients from the cooler and blend the formulation. The finished patties will be wrapped in plastic and then into boxes. The boxes will be put into the freezer until distribution. Horizon staff will pick up beef, vegetables, and bone meal weekly and these ingredients will be stored in the cooler, along with the chicken.

3.4.1 Equipment

Equipment Horizon will utilize consists of the following: a 15 hp heavy-duty grinder, a fixed bowl automatic spiral mixer, a sausage stuffer, a band saw, and a weigh scale. The capital costs and installation costs are shown in Table 1. Office equipment includes: computer, fax, phone, and other miscellaneous items. The site equipment includes: a pallet jack, shovels, brooms, tables, benches and cleaning equipment. The

truck is a three quarter ton diesel and the trailer an 8x 20-foot cargo trailer. Horizon will purchase another truck and trailer in 2009.

Table 1. Equipment, installation, and miscellaneous costs.

	2005	2009
Installation	50,000	
Truck	60,000	60,000
Trailer	7,000	10,000
Grinder	10,000	
Mixer	3,000	
Sausage Stuffer	3,000	
Band saw	1,100	
Weigh scale	1,100	
Office Misc.	7,000	
Site Misc.	10,000	
Total	152,200	70,000

3.5 Labour Requirements

Horizon plans to hire three production personal that will be responsible for the day-to-day production of Pure. Each person will be well versed in the safe operation of the mixer, grinder, casing stuffer, and band saw. All three-production staff will be involved in inventory reception and final product shipping. Each employee will be self-motivated as well as having teamwork skills. The production positions do not require any technical skills; however, meat-processing experience will be considered an asset. A breakdown of production salaries is shown below in Table 2.

Table 2 Direct Labour

		2005	2007	2009	2011	2013
Production Line	\$/hour					
Production #1	10	20,800	21,640	22,515	23,424	24,371
Production #2	10	20,800	21,640	22,515	23,424	24,371
Production #3	10	20,800	21,640	22,515	23,424	24,371
Total Salaries		62,400	64,921	67,544	70,273	73,112
Holiday Pay	6.00%	3,744	3,895	4,053	4,216	4,387
EI	1.98%	1,236	1,285	1,337	1,391	1,448
CPP	4.95%	3,089	3,214	3,343	3,478	3,619
Workers Comp.	8.21%	5,123	5,330	5,545	5,769	6,002
Direct Labour		75,591	78,645	81,823	85,128	88,567

3.6 Capital Requirements

The proposed capital budget for Horizon is shown in Table 3. The land will cost \$1200 per acre. The expected costs for an insulated, wood framed building are \$40 per square foot. For a 2000 square foot building, the expected costs are \$80,000. The cost of the freezer/cooler is \$100,000.

Table 3. Capital Requirements

Land	12,000
Buildings	80,000
Freezer/Cooler	100,000
Total	192,000

3.7 Operating Expenses and Manufacturing Overhead

The operating expenses for Horizon consist of direct materials (Table 4), direct labour (Table 2), variable manufacturing overhead cost (Table 5), fixed manufacturing overhead, and operating expenses (Table 7).

Table 4. Direct material purchases

	2005	2007	2009	2011	2013
Production					
Target tonnes	375	600	600	600	600
Beef	348,657	580,388	603,836	628,231	653,612
Chicken	26,250	43,697	45,462	47,299	49,210
Vegetables	66,000	109,866	114,305	118,923	123,727
Bone Meal	1,650	2,747	2,858	2,973	3,093
Packaging	43,966	73,187	76,144	79,220	82,420
Direct Material Purchases	486,523	809,885	842,604	876,645	912,062

A detailed breakdown of the direct materials purchased and packaging costs are shown in Appendix B.

Table 5. Variable Manufacturing Overhead

	\$/month	2005	2007	2009	2011	2013
Utilities	\$1,102	13,224	13,758	14,314	14,892	15,494
Bank Charges	\$500	6,000	6,242	6,495	6,757	7,030
Advertising/Promotion/ Publishing	\$4,500	54,000	56,182	58,451	60,813	63,270
Telephone (incl. Cell)	\$1,000	12,000	12,485	12,989	13,514	14,060
Repairs/Maintenance	\$1,000	12,000	12,485	12,989	13,514	14,060
Travel/Gas	\$3,500	42,000	43,697	45,462	47,299	49,210
Variable Overhead		139,224	144,849	150,701	156,789	163,123

Table 6. Fixed Manufacturing Overhead Costs

		2005	2007	2009	2011	2013
	\$/month					
Natural Gas	\$400	4,800	4994	5196	5406	5624
Property Taxes		-	10,000	10,609	11,255	11,941
Capital Cost Allowance		23,120	31,749	29,561	24,663	14,512
Electricity	\$3,000	36,000	37,454	38,968	40,542	42,180
Insurance	\$300	3600	3745	3897	4054	4218
Fixed Manufacturing Overhead		67,520	87,943	88,230	85,920	78,474
Total Manufacturing Overhead		206,744	232,792	238,930	242,709	241,598

Table 7. Operating Expenses

	2005	2007	2009	2011	2013
Telephone	12,000	12,485	12,989	13,514	14,060
Salaries (President/Operations)	100,000	104,040	108,243	112,616	117,166
Marketing:					
Variable	54,000	56,182	58,451	60,813	63,270
Fixed	25,000	26,010	27,061	28,154	29,291
Administration:	2,500	2,601	2,706	2,815	2,929
Start-up Costs	50,000				
Interest on Line of Credit	3,700	-	-	-	-
Interest - LT Debt	13,768	11,791	12,285	10,062	7,468
Total Expenses	260,968	213,109	221,736	227,974	234,184

3.8 Cost of Goods

The costs of goods sold for Horizon Manufacturing Inc with production beginning in 2005 is shown in Table 8.

Table 8. Cost of Goods Sold

	2005	2007	2009	2011	2013
Beg Finished Goods Inv	-	21,142	21,851	22,870	23,507
Goods Available for Sale	768,858	1,121,322	1,163,357	1,204,482	1,242,227
End Finished Goods Inv	768,858	1,142,464	1,185,209	1,227,352	1,265,733
Cost of Goods Sold	14,786	21,564	22,372	23,163	23,889
Total	754,072	1,120,900	1,162,836	1,204,189	1,241,844

The cost of goods manufactured is derived from direct materials purchased (Table 4), direct labour (Table 2) and manufacturing overhead (Table 6). Table 9 shows these values for the years starting in 2005.

Table 9. Cost of Goods Manufactured

	2005	2007	2009	2011	2013
Direct Materials Used	486,523	809,885	842,604	876,645	912,062
Direct Labour Used	75,591	78,645	81,823	85,128	88,567
Manufacturing Overhead	206,744	232,792	238,930	242,709	241,598
Cost of Goods Manufactured	768,858	1,121,322	1,163,357	1,204,482	1,242,227

4.0 Sales and Marketing

4.1 Sales and Marketing Strategy

4.1.1 Segmentation

Target markets in the dog food industry contain many different segments. These segments can be single dog owners or owners of many dogs. These dog owners range from having just a basic “mutt,” to having champion pure bred dogs.

The food that the owners feed to their dogs also creates segmentation within the market. This market varies from owners that feed their dog the inexpensive food, to owners who buy premium dog foods.

The type of dog food that people buy is also a market segment. Pet food is made up of four segments: dry kibble, canned dog food, raw pet food, and, homemade dog food.

The dog breed also determines the pet food that an owner will purchase, as it is more expensive to feed a large dog than it is to feed a small dog. A dog’s health creates segmentation within the market, as some foods are better suited for dogs with allergies or other health problems. The market is also divided by owners’ education, income, location, personal preference, and age of the pet owners

4.1.2 Target Markets

Horizon will market Pure as a speciality product focused towards four primary groups of people; retired couples, young professionals, the pet health conscious, and dog breeders. These four groups have a high level of disposable income and/or are educated about the health benefits of raw diets. For each group, dogs are a very important part of their lives, and money is not a primary concern when it comes to the health of their pets

4.1.2.1 Retired Couples

This market is focuses on retired couples, who are childless or have grown up children. The dog is the child. The people in this market are wealthy retired/semi retired professionals. The pets in these households receive the best of everything.

4.1.2.2 Young Professionals and Professional Couples

This market is made up of educated 25-35 year olds. They may be single or married, but have no children. Again, the dog is their child. These young professionals

have no costs associated with children, so spend a significant portion of their income on their pets. This urban market will make up of a large portion of Horizons business

4.1.2.3 Pet Health Conscious

This market is made up of people that have had problems with their dog's health in the past, and for whom a raw diet is suggested as a means of treatment by a veterinarian. These people could be any age, and are often married with children. The pet, in these households, is considered to be a member of the family.

4.1.2.4 Dog Breeders

This market is made up of dog breeders that are educated in the benefits of raw formulation diets. This market will account for a substantial portion of Horizons business.

4.1.3 Promotion

Horizon will promote Pure through various channels, with the sales representative being responsible for this portion of the business. The sales representative, who will be a shared employee with High Mountain Distributors, will be responsible for developing good customer relations with clients. The sales representative will promote Pure and Horizon through High Mountain Distributors to retailers under High Mountain.

Horizon will develop a web site describing the operations of Horizon Manufacturing Inc., where horizon is located, the formulation of Pure, and where Pure can be purchased. The web site will also promote the benefits of feeding raw formulation diets to canines.

As raw formulation diets gain market share, Horizon intends to promote Pure though tradeshow. At these tradeshow, the managing partners will inform the public about the benefits of raw formulation pet diets and why Pure is the best raw diet on the market for pets.

. The fixed costs of \$25,000 per year are Horizons' portion of the of the marketing and sales representative's salary. The other half of this positions salary will be covered by High Mountain Distributors. The variable marketing costs, which include, travel expenses, advertising, and promotional printing, are shown along with the fixed costs in Table 10

Table 10 Marketing Expenses

	2005	2007	2009	2011	2013
Marketing and Sales					
Representative Salary	23,380	24,324	25,307	26,329	27,393
CPP (4.95%)	1,157	1,204	1,253	1,303	1,356
EI (1.98%)	<u>463</u>	<u>482</u>	<u>501</u>	<u>521</u>	<u>542</u>
Total Fixed	25,000	26,010	27,061	28,154	29,291
Variable	54,000	56,182	58,451	60,813	63,270
Total	79,000	82,192	85,512	88,967	92,561

4.1.4 Sales and Profit Objectives

Horizon will be able to market 375 tonnes of finished product in the first year with an increase to 600 tonnes in the second and subsequent years. The sales projections for the years starting in 2005 are shown below in table 11. More detailed sales figures can be found in Appendix A. Horizon will achieve a 1.7% profit in 2005 with profit margins remaining relatively constant at 18% in subsequent years. More detailed financial analysis' are in Appendix A.

Table 11. Sales Projections

	2005	2007	2009	2011	2013
Quantity of Sales (tonnes)	375	600	600	600	600
PURE \$/kg	\$/tonne				
Selling Prices \$2.88	2,880	2,996	3,117	3,243	3,374
Gross Sales Revenue	1,080,000	1,797,811	1,870,443	1,946,009	2,024,627

4.2 Distribution

Horizon will distribute Pure through High Mountain Distributing Inc. in Calgary Alberta. As soon as market share is gained, distributors in British Columbia will be approached to carry Pure. The market in Saskatchewan will be serviced directly from the door of Horizon, with delivery by staff in the future. This door-to-door approach may be used in Alberta as well, for specialty pet food stores that are not supplied by High Mountain.

4.3 Situation Analysis

4.3.1 Strengths

- Horizon has a low cost of production. This low cost of production stems from the raw resource advantage to production in Saskatchewan.
- Horizon also has a highly qualified, well-networked group of managers. One manager has a Masters degree in Agricultural Economics, while the other has a B. Comm.

4.3.2 Weaknesses

- Horizons primary weakness is that it only produces and markets one product. Although Pure is a healthy blend of beef, vegetable, chicken, and bone meal, the competition markets many products, including all beef, all chicken, and all lamb formulations.
- Since Horizon plans to market Pure through Alberta and British Columbian markets, this adds significant costs to Horizons bottom line. Horizon must haul Pure to the distributor in Calgary. These costs are shown in Appendix A under expenses.

4.3.3 Opportunity

- The market for raw pet food is small and experiencing the greatest growth in the industry. Since the market is small, Horizon has an opportunity to capture a large portion of this growing market
- The internet is also an opportunity for Horizon. Since horizon plans to incorporate a web site into the promotion of Pure, they will be able to capture the growing number health conscious pet owners.

4.3.4 Threats

- The major threat to Horizons survival is the already established channels of distribution that the competition has in place. This coupled with consumer reluctance to switch pet diets is a major obstacle for Horizon to overcome.

5.0 Human Resources

5.1 Management Description

Horizon will have three people on the board of directors, each of whom brings different skills to the company. Two of the directors are principle shareholders in the company. The positions held by these principle shareholders are President/Financial manager and the Operations manager. The third member of the board of directors is an advisor.

The President of Horizon will act as the general manager and accountant. The President will be responsible for business development, raising capital, making capital purchases, general accounting, and also being the face of the organization. This individual has management experience and is familiar with the workings of a small business.

The Operations manager will manage the day-to-day operations at Horizon. This person will be responsible for the hiring of production staff and the subsequent training of staff in the production of Pure pet food. This person is responsible for finding raw materials that are needed for production and ensuring that these raw goods are in adequate supply. The Productions manager will ensure that employees are following safe work procedures and are meeting production targets. Management salaries are shown below in Table 12.

The third management position is the shared marketing and sales representative. This position is explained fully in section 4.1.3. This positions' salary is accounted for under marketing expenses in Table 10.

Table 12. Salaries of Management Staff (Operating Expense)

	2005	2007	2009	2011	2013
President	46,760	48,649	50,614	52,659	54,786
Operations	46,760	48,649	50,614	52,659	54,786
CPP (4.95%)	4,629	4,816	5,011	5,213	5,424
EI (1.98%)	1,852	1,926	2,004	2,085	2,170
Total	100,000	104,040	108,243	112,616	117,166

5.2 Organizational Structure

At Horizon, each employee, management and production, will report to another person in the company. The purpose of this hierarchy is to keep each employee in the company informed about the other aspects of the business. The structure of Horizon is shown below, in Figure 4.

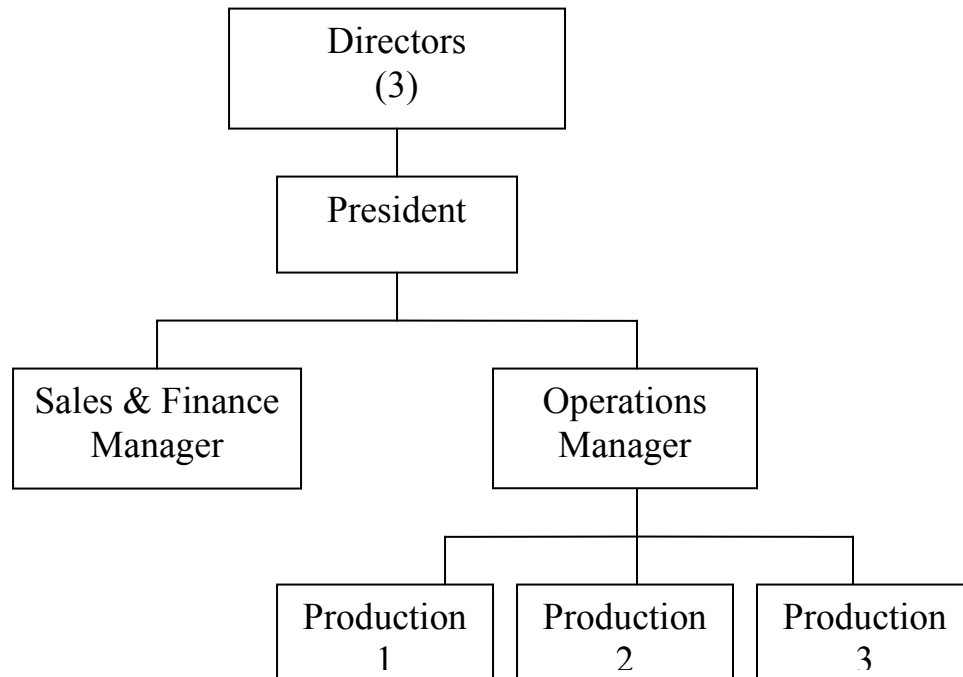


Figure 4. Organizational Structure of Horizon manufacturing Inc.

6.0 Financial Documents

6.1 Financing

Horizon will have to raise capital from investment equity, long-term debt and a line of credit. The values for each are shown below in Table 13

Table 13. Financing Budget

	2005	2009
Long Term Debt (50%)	172,100	35,000
New Common Shares	250,000	-
Line of Credit	40,000	
Total	462,100	35,000

6.2 Working Capital

Accounts receivable, Accounts Payable, and Inventories are shown in Table 14. Horizon will use a 30-day policy on accounts receivable and will carry 14 days inventory. Accounts payable for beef will be 7 days and payables for vegetables, chicken, bone meal, and any other accounts will be 30 days.

Table 14. Working Capital

	2005	2007	2009	2011	2013
Cash	17,172	629,364	719,642	764,833	773,300
Accounts Receivable	88,767	147,765	153,735	159,946	166,408
Pure Inventory	29,490	43,010	44,622	46,199	47,647
Accounts Payable Beef	(6,687)	(11,131)	(11,580)	(12,048)	(12,535)
Accounts Payable Other (V, C, BM)	(11,331)	(18,863)	(19,625)	(20,418)	(21,242)
Total	117,411	790,146	886,794	938,513	953,577

6.3 Financial Performas

Table 15 Statement of Financial Performas

For the year ended Dec. 31	2005	2007	2009	2011
Sales Revenue:				
Total Revenue	1,080,000	1,797,811	1,870,443	1,946,009
Cost of Goods Sold	754,072	1,120,900	1,162,836	1,204,189
Gross Margin	325,928	676,911	707,606	741,819
Expenses:				
Total Expenses	304,934	286,295	297,880	307,194
Income Before Taxes	20,994	390,616	409,727	434,625
Net Income (Loss)	18,719	329,244	342,270	359,241
Beg Retained Earnings	-	344,590	784,952	807,501
Dividends	-	-	347,021	361,342
End Retained Earnings	18,719	673,834	780,201	805,400
Year-end Cash	17,172	629,364	719,642	764,833
NPV	937,890			
IRR	74%			
ERR	42%			

6.4 Risk Analysis

6.4.1 Critical Variables

Through analysis of selling price, price of inputs (beef, chicken, and vegetables), and sales quantities, Horizon has determined three critical variables. The variables have been ranked with 1 being extremely critical, 2 as critical, and 3 as not critical. The variables that are the most important to business are sales quantity, selling price, and price of beef.

Table 16 compares the base case to the change that must take place to change the IRR to zero. The most critical variable is the amount of sales each year. If sales drop by 31% in the first year and by 19.8% subsequent years, or the selling price drops by 20.8%, or if the price of beef increases by 116% Horizon will not be financially profitable.

Table 16. Risk Analysis Critical variables

	Price			Sales Quantity (year)		
	Sale	Beef	Chicken	Vegetable	1	2-10
Base Case	2.88	0.25	700	440	375	600
IRR=0	2.28	0.54	6687	1939	256	481
% Change	21%	-116%	-855%	-341%	32%	20%
Ranking	2	2	3	3	1	1

6.4.2 Best Case/Worst Case

The best case and worst-case scenarios are outlined in Table 17. The base case for Horizon is a selling price of \$2.88/ kg with sales of 375 tonnes in the first year and 600 tonnes per subsequent year. The price of beef per pound is \$0.25.

Table 17. Best and Worst case scenarios as compared to Base case.

	Base	Worst	Best
Price	2.88	2.45	3.31
Sales (tones)	375+600	320+510	431+690
Beef	0.25	0.35	0.15

The worst case assumes a 15% decrease in selling price, a 15% decrease in sales in the first year and in subsequent years, and a 28% increase in the price of beef. The best case assumes a 15% increase in selling price, a 15% increase in sales in the first year and in subsequent years, and a 28% decrease in the price of beef. The effects of these changes on cash, net income, and internal rate of return are shown in Table 18.

Table 18. Base, worst, and best case scenarios on cash, net income, and IRR

	2005	2007	2009	2011	2013
Base					
Cash	17,172	629,364	719,642	764,833	773,300
Net income	18,719	329,244	342,270	359,241	380,747
IRR	74%				
Worst					
Cash	(328,924)	(817,740)	(1,304,160)	(1,772,124)	(2,257,279)
Net income	(350,235)	(234,853)	(241,011)	(242,402)	(238,201)
IRR	0%				
Best					
Cash	336,271	1,223,938	1,219,370	1,284,750	1,314,221
Net income	364,835	810,451	842,917	880,114	922,664
IRR	192%				

6.4.3 Break Even Analysis

The break even net income and cash selling price, sales in tonnes per year, and beef price for are shown below in Table 19.

Table 19. Break Even Analyses

	2005	2007	2009	2011	2013
Selling Price (\$/kg)					
Net Income	2.82	2.25	2.25	2.24	2.22
Cash	2.82	2.44	2.36	2.32	2.30
Sales (tonnes/year)					
Net Income	368	570	565	558	551
Cash	368	570	565	558	551
Beef Price (\$/lb)					
Net income	0.28	0.56	0.56	0.56	0.56
Cash	0.28	0.46	0.50	0.52	0.53

The break-even analysis for the three critical variables is shown graphically in Figure 5, 6, and 7. For the first year of operation, the break-even prices are very close to the projected base case scenario. In subsequent years of production, sales, sale price, and price of beef break-even levels fall. The break even that is most critical for Horizons survival is the amount of product sold.

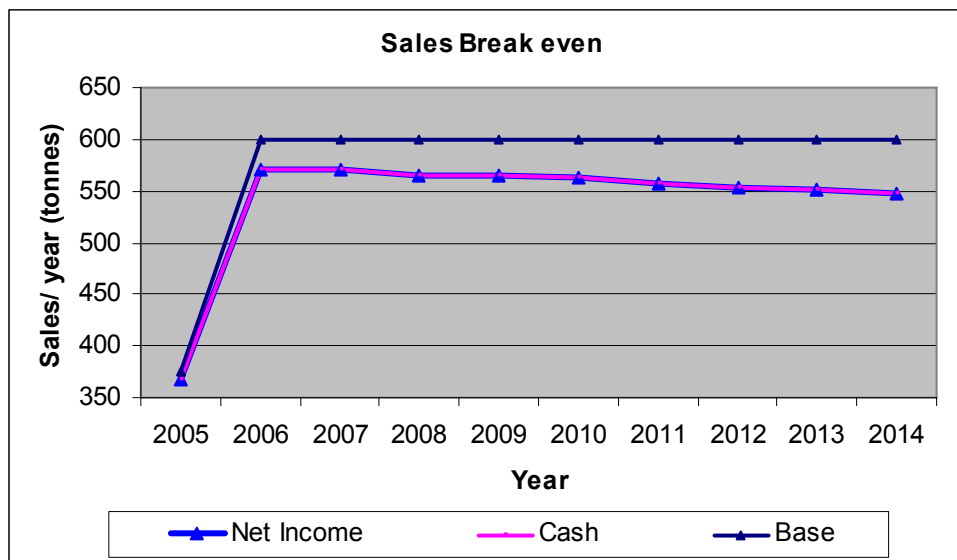


Figure 5. Sales Break Even

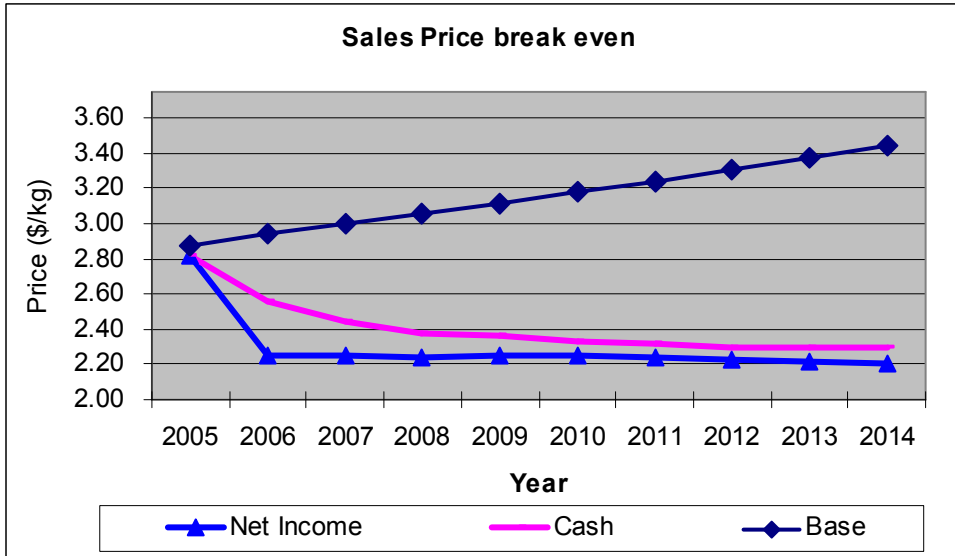


Figure 6. Sales Price break-even

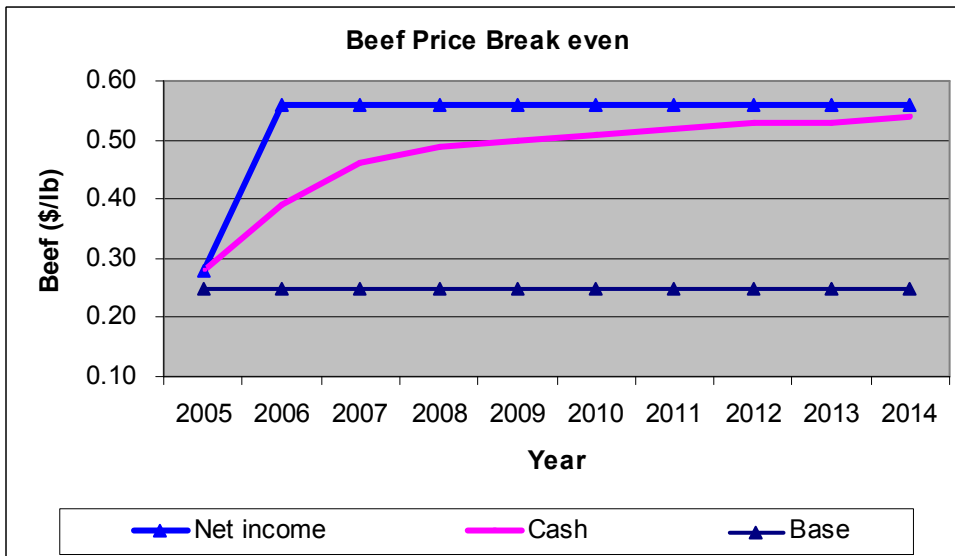


Figure 7. Beef Price Break even

7.0 Conclusions

After completing the business plan for Horizon Manufacturing Inc, it has been concluded that the product of raw formulation pet food under the name Pure is a feasible enterprise. The financial model has demonstrated that the IRR for Horizon is 74% at the given selling price and projected sales. By industry standards, this IRR is very high, but because of relatively low capital costs, and the premium pricing of Pure this IRR is reasonable. The economic feasibility of Horizon Manufacturing Inc is dependant on meeting sales projections. The outlined sales objectives will be met because of high margins achieved by distributors and retailers. Distributors and retailers will carry and promote Pure as sales of Pure directly affect the profitability of their businesses. This coupled with the fact that raw formulation pet foods are experiencing the highest growth in the pet food market, leaves Horizon in a poised position to become a competitive agent in the pet food market place.

8.0 References

Amore Pet Foods
Richmond, B.C.
<http://www.amorepetfoods.com>(October'04)

Critters Animal & Pet Supply
112-110 Ruth St. East.
Saskatoon, SK.
1-306-664-6333

Granny's Poultry Co-operative
Winnepeg MB.
1-800-832-6122
www.grannys.mb.ca

Jason Skotheim
Personal Contact
Skotheim@mobility.blackberry.net
955-3661

Mountain Dog Food
Edmonton, AB
<http://www.mountaindogfood.com/> (October'04)

Nella Cutlery Toronto Inc.
<http://www.nellacutlery.com/> (October'04)

Prairie Diagnostic Services
Saskatoon, SK.
<http://www.usask.ca/pds/> (October'04)

Raw Advantage Pet Foods
Stanwood, WA
www.rawadvantagepetsfoods.com

Saskatoon Processors Ltd.
Saskatoon, SK.
1-306-683-2410

SaskEnergy
Regina Saskatchewan
1-800-757-8899

SaskPower
Regina Saskatchewan
1-800-757-6935

The Western Producer
Saskatoon, SK
www.producer.com

Town of Rosthern
Rosthern Saskatchewan
1-306-232-4826

Unified Western Grocers Inc.
www.uwgrocers.com (October'04)

Urban Carnivore
Saskatoon, SK
<http://www.urbancarnivore.com/> (October'04)

USDA
Foreign Agricultural Service
GAIN Report (Global Agriculture Report Network)
Date: 11/6/2000 Report # CA0174
Canada Product Brief Pet Industry Report 2000
<http://www.fas.usda.gov/GainFiles/200011/55678719.pdf> (September'04)

Varganza's Natural Pet Supplies
511-33 St. West
Saskatoon, SK.
1-306-933-9939

Appendix A
Financial Projections

Horizon Manufacturing Inc. PURE

Horizon Manufacturing Inc.

Base Case

Statement of Income and Retained Earnings

For the year ended Dec. 31

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Sales Revenue:						
PURE	1,080,000	1,762,560	1,797,811	1,833,767	1,870,443	1,907,852
Total Revenue	1,080,000	1,762,560	1,797,811	1,833,767	1,870,443	1,907,852
Cost of Goods Sold	<u>754,072</u>	<u>1,093,020</u>	<u>1,120,900</u>	<u>1,135,987</u>	<u>1,162,836</u>	<u>1,188,748</u>
Gross Margin	325,928	669,540	676,911	697,781	707,606	719,103
Expenses:						
Telephone	12,000	12,240	12,485	12,734	12,989	13,249
Salaries	100,000	102,000	104,040	106,121	108,243	110,408
Marketing	79,000	80,580	82,192	83,835	85,512	87,222
Administration	2,500	2,550	2,601	2,653	2,706	2,760
Packaging	43,966	71,752	73,187	74,650	76,144	77,666
Start-up Costs	50,000	-	-	-	-	-
Interest on Line of Credit	3,700	1,932	-	-	-	-
Interest LT Debt	13,768	12,818	11,791	10,683	12,285	11,216
Total Expenses	304,934	283,871	286,295	290,677	297,880	302,522
Income Before Taxes	20,994	385,669	390,616	407,104	409,727	416,581
Income Taxes	<u>2,276</u>	<u>59,797</u>	<u>61,372</u>	<u>66,622</u>	<u>67,457</u>	<u>69,639</u>
Net Income(Loss)	18,719	325,872	329,244	340,482	342,270	346,942
Beg Retained Earnings	-	18,719	344,590	673,834	784,952	780,201
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,364</u>	<u>347,021</u>	<u>319,642</u>
End Retained Earnings	18,719	344,590	673,834	784,952	780,201	807,501
Divednds Policy: Pay excess cash balance in following year	400,000					

Balance Sheet

December 31

Assets

Current Assets:

Cash	17,172	285,749	629,364	747,021	719,642	761,342
Accounts Receivable	88,767	144,868	147,765	150,721	153,735	156,810
Inventory	29,490	42,168	43,010	43,583	44,622	45,615
Total Current Assets	135,429	472,784	820,139	941,324	917,999	963,766

Plant and Equipment	344,200	344,200	344,200	344,200	414,200	414,200
Accumulated C.C.A.	(23,120)	(64,092)	(95,841)	(120,652)	(150,212)	(182,880)
Net Plant and Equipment	321,080	280,108	248,359	223,548	263,988	231,320
Total Assets	456,509	752,892	1,068,498	1,164,873	1,181,987	1,195,086

Liabilities

Current Liabilities:

Accounts Payable	6,687	10,912	11,131	11,353	11,580	11,812
Line of Credit	20,884	-	-	-	-	-
Total Current Liabilities	27,571	10,912	11,131	11,353	11,580	11,812

Long Term Debt	160,220	147,390	133,533	118,568	140,205	125,773
Total Liabilities	187,791	158,302	144,664	129,921	151,785	137,585

Shareholders' Equity

Share Capital	250,000	250,000	250,000	250,000	250,000	250,000
Retained Earnings	18,719	344,590	673,834	784,952	780,201	807,501
Total Shareholder's Equity	268,719	594,590	923,834	1,034,952	1,030,201	1,057,501

Total Liabilities and Shareholder's Equity	456,509	752,892	1,068,498	1,164,873	1,181,987	1,195,086
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Statement of Changes in Financial Position

For the year ended Dec. 31

Cash from (used in) Operating Activities:

	2005	2006	2007	2008	2009	2010
Net Income(Loss)	18,719	325,872	329,244	340,482	342,270	346,942
Depreciation	23,120	40,972	31,749	24,810	29,561	32,668
Accounts Receivable	(88,767)	(56,101)	(2,897)	(2,955)	(3,014)	(3,075)
Inventory	(29,490)	(12,677)	(842)	(574)	(1,039)	(993)
Accounts Payable	6,687	4,226	218	223	227	232
Net Cash Flow from Operations	(69,732)	302,291	357,472	361,986	368,005	375,773

Cash from (used for) Financing Activities:

Sale of Common Stock	250,000	-	-	-	-	-
Long Term Debt	160,220	(12,830)	(13,857)	(14,965)	21,637	(14,432)
Line of Credit	20,884	(20,884)	-	-	-	-
Dividends	-	-	-	(229,364)	(347,021)	(319,642)
Net Cash Flow from Financing	431,104	(33,714)	(13,857)	(244,329)	(325,383)	(334,074)

Cash from (used for) Investing Activities:

Plant and Equipment	(344,200)	-	-	-	(70,000)	-
Net Cash Flow from Investing	(344,200)	-	-	-	(70,000)	-

Increase(decrease) in Cash

	17,172	268,577	343,616	117,657	(27,379)	41,700
Cash beginning of year	-	17,172	285,749	629,364	747,021	719,642
Cash end of year	17,172	285,749	629,364	747,021	719,642	761,342

Horizon Manufacturing Inc. PURE

Supporting Schedules

Schedule 1: Economic Forecast

		2005	2006	2007	2008	2009	2010
Long Term Debt Rate	Input	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Rate of Inflation (expenses)	Input	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Line of Credit Debt		9.3%	9.3%	9.3%	9.3%	9.3%	9.3%

Schedule 2: Revenues

		2005	2006	2007	2008	2009	2010
<u>Quantity of Sales (tonnes)</u>							
PURE		375	600	600	600	600	600
<u>Selling Prices</u>							
	\$/kg						
PURE	\$2.88	\$/tonne 2,880	2,938	2,996	3,056	3,117	3,180
<u>Sales Revenue</u>							
PURE		1,080,000	1,762,560	1,797,811	1,833,767	1,870,443	1,907,852
Total Revenue		1,080,000	1,762,560	1,797,811	1,833,767	1,870,443	1,907,852

Schedule 3: Cost of Goods Manufactured and Cost of Goods Sold

		2005	2006	2007	2008	2009	2010
<u>Amount Raw Materials Purchased</u>							
Production Target Tonnes		375	600	600	600	600	600
Beef		348,657	569,008	580,388	591,996	603,836	615,913
Chicken		26,250	42,840	43,697	44,571	45,462	46,371
Vegetables		66,000	107,712	109,866	112,064	114,305	116,591
Bone Meal		1,650	2,693	2,747	2,802	2,858	2,915
Packaging		43,966	71,752	73,187	74,650	76,144	77,666
Direct Material Purchases		486,523	794,005	809,885	826,083	842,604	859,456

		2005	2006	2007	2008	2009	2010
<u>Direct Labour Costs</u>							
Production Line	\$/hour						
Production #1	10	20,800	21,216	21,640	22,073	22,515	22,965
Production #2		20,800	21,216	21,640	22,073	22,515	22,965
Production #3		20,800	21,216	21,640	22,073	22,515	22,965
Total Salaries		62,400	63,648	64,921	66,219	67,544	68,895
Holiday Pay	6.00%	3,744	3,819	3,895	3,973	4,053	4,134
EI	1.98%	1,236	1,260	1,285	1,311	1,337	1,364
CPP	4.95%	3,089	3,151	3,214	3,278	3,343	3,410
Workers Comp.	8.21%	5,123	5,226	5,330	5,437	5,545	5,656
Direct Labour		75,591	77,103	78,645	80,218	81,823	83,459

		2005	2006	2007	2008	2009	2010
<u>Variable Manufacturing Overhead Costs</u>							
	\$/month						
Utilities	\$1,102	13224	13488	13758	14033	14314	14600
Bank Charges	\$500	6000	6120	6242	6367	6495	6624
Advertising/Promotion/Publishing	\$4,500	54000	55080	56182	57305	58451	59620
Telephone (incl. Cell)	\$1,000	12000	12240	12485	12734	12989	13249
Repairs/Maint	\$1,000	12000	12240	12485	12734	12989	13249
Travel/Gas	\$3,500	42000	42840	43697	44571	45462	46371
Variable Overhead		139,224	142,008	144,849	147,746	150,701	153,715

Horizon Manufacturing Inc. PURE

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Fixed Manufacturing Overhead Costs</u>							
	\$/month						
Natural Gas	\$400	4,800	4896	4994	5094	5196	5300
Property Taxes		-	-	10,000	10,300	10,609	10,927
Capital Cost Allowance		23,120	40,972	31,749	24,810	29,561	32,668
Electricity	\$3,000	36,000	36,720	37,454	38,203	38,968	39,747
Insurance	\$300	3600	3672	3745	3820	3897	3975
Fixed Manufacturing Overhead		67,520	86,260	87,943	82,228	88,230	92,616
Total Manufacturing Overhead		206,744	228,268	232,792	229,973	238,930	246,331
<u>Cost of Goods Manufactured</u>							
Direct Materials Used		486,523	794,005	809,885	826,083	842,604	859,456
Direct Labour Used		75,591	77,103	78,645	80,218	81,823	83,459
Manufacturing Overhead		206,744	228,268	232,792	229,973	238,930	246,331
Cost of Goods Manufactured		768,858	1,099,376	1,121,322	1,136,274	1,163,357	1,189,246
<u>Unit Manufacturing Cost PURE (per tonne)</u>							
Cost of Goods Manufactured		768,858	1,099,376	1,121,322	1,136,274	1,163,357	1,189,246
Tonnes of PURE Produced		375	600	600	600	600	600
Unit Manufacturing Cost PURE		2,050	1,832	1,869	1,894	1,939	1,982
Unit Cash Manufacturing Cost PURE \$/tonne		1,989	1,764	1,816	1,852	1,890	1,928
<u>Unit Cash Cost/t PURE</u>							
Direct Materials Cost/t		1297	1323	1350	1377	1404	1432
Direct Labour/t		202	129	131	134	136	139
Manufacturing Overhead/t		923	617	629	630	649	667
Total Cost Per Tonne		2422	2069	2110	2140	2190	2238
PURE Selling Price/t		2,880	2,938	2,996	3,056	3,117	3,180
Cash Margin/t PURE		458	869	886	916	927	941
Cash Margin %		16%	30%	30%	30%	30%	30%
<u>Cost of Goods Sold</u>							
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Beg Finished Goods Inv		-	14,786	21,142	21,564	21,851	22,372
Cost of Goods Manufactured		768,858	1,099,376	1,121,322	1,136,274	1,163,357	1,189,246
Goods Available for Sale		768,858	1,114,162	1,142,464	1,157,838	1,185,209	1,211,618
End Finished Goods Inv		14,786	21,142	21,564	21,851	22,372	22,870
Cost of Goods Sold		754,072	1,093,020	1,120,900	1,135,987	1,162,836	1,188,748

Schedule 4: Expenses

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Telephone	12,000	12,240	12,485	12,734	12,989	13,249
Salaries	100,000	102,000	104,040	106,121	108,243	110,408
<u>Marketing:</u>						
Variable	54,000	55,080	56,182	57,305	58,451	59,620
Fixed	25,000	25,500	26,010	26,530	27,061	27,602
Administration:	2,500	2,550	2,601	2,653	2,706	2,760
Start-up Costs	50,000					
Interst on Line of Credit	3,700	1,932	-	-	-	-
Interest - LT Debt	13,768	12,818	11,791	10,683	12,285	11,216
Total Expenses	260,968	212,119	213,109	216,026	221,736	224,856

Schedule 5: Capital Budget

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Land</u>	12,000	-	-	-	-	-
<u>Buildings</u>	80,000	-	-	-	-	-
<u>Equipment:</u>						
Freezer/Cooler	100,000	-	-	-	-	-
Instalation	50,000	-	-	-	-	-
Truck	60,000	-	-	-	60,000	-
Trailer	7,000	-	-	-	10,000	-
Grinder	10,000	-	-	-	-	-
Mixer	3,000	-	-	-	-	-
Sausage Stuffer	3,000	-	-	-	-	-
Band saw	1,100	-	-	-	-	-
Weigh scale	1,100	-	-	-	-	-
Office Misc.	7,000	-	-	-	-	-
Site Misc.	10,000	-	-	-	-	-
Total Capital Outlay	344,200	-	-	-	70,000	-

Schedule 6: Financing Budget

Long Term Debt (50%)	50%	172,100	-	-	-	35,000	-
New Common Shares		250,000	-	-	-	-	-
Line of Credit		40,000	-	-	-	-	-
Total		462,100	-	-	-	35,000	-

Schedule 7: Capital Cost Allowance

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Buildings	Input Rate	4%					
Beginning Balance	Class 1	-	78,400	75,264	72,253	69,363	66,589
Additions		80,000	-	-	-	-	-
Capital Cost Allowance		<u>1,600</u>	<u>3,136</u>	<u>3,011</u>	<u>2,890</u>	<u>2,775</u>	<u>2,664</u>
Ending Balance		78,400	75,264	72,253	69,363	66,589	63,925
Equipment	Input rate	20%					
Beginning Balance	Class 8	-	<u>16,380</u>	<u>13,104</u>	<u>10,483</u>	<u>8,387</u>	<u>6,709</u>
Additions		18,200	-	-	-	-	-
Capital Cost Allowance		<u>1,820</u>	<u>3,276</u>	<u>2,621</u>	<u>2,097</u>	<u>1,677</u>	<u>1,342</u>
Ending Balance		16,380	13,104	10,483	8,387	6,709	5,367
Truck	Input rate	30%					
Beginning Balance	Class 10	-	51,000	35,700	24,990	17,493	63,245
Additions		60,000	-	-	-	60,000	-
Capital Cost Allowance		<u>9,000</u>	<u>15,300</u>	<u>10,710</u>	<u>7,497</u>	<u>14,248</u>	<u>18,974</u>
Ending Balance		51,000	35,700	24,990	17,493	63,245	44,272
Trailer	Input rate	20%					
Beginning Balance	Class 8	-	6,300	5,040	4,032	3,226	11,580
Additions		7,000	-	-	-	10,000	-
Capital Cost Allowance		<u>700</u>	<u>1,260</u>	<u>1,008</u>	<u>806</u>	<u>1,645</u>	<u>2,316</u>
Ending Balance		6,300	5,040	4,032	3,226	11,580	9,264
Freezer/Cooler	Input rate	20%					
Beginning Balance	Class 8	-	90,000	72,000	57,600	46,080	36,864
Additions		100,000	-	-	-	-	-
Capital Cost Allowance		<u>10,000</u>	<u>18,000</u>	<u>14,400</u>	<u>11,520</u>	<u>9,216</u>	<u>7,373</u>
Ending Balance		90,000	72,000	57,600	46,080	36,864	29,491
Total CCA Expense		23,120	40,972	31,749	24,810	29,561	32,668

Schedule 8: Long Term Debt

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Beginning Balance	Term 10	-	160,220	147,390	133,533	118,568	140,205
Addition		172,100	-	-	-	35,000	-
Interest		13,768	12,818	11,791	10,683	12,285	11,216
Debt Payment		25,648	25,648	25,648	25,648	25,648	25,648
Ending Balance		160,220	147,390	133,533	118,568	140,205	125,773

Schedule 8.5: Line of Credit

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Beginning Balance	Term 2	-	20,884	-	-	-	-
Addition		40,000	-	-	-	-	-
Interest		3,700	1,932	-	-	-	-
Debt Payment		22,816	22,816	-	-	-	-
Ending Balance		20,884	-	-	-	-	-

Horizon Manufacturing Inc. PURE

Schedule 9: Income Tax

		2005	2006	2007	2008	2009	2010
Income Before Taxes		20,994	385,669	390,616	407,104	409,727	416,581
Accumulated Loss Carryforward		-	-	-	-	-	-
Loss Carryforward Used		-	-	-	-	-	-
Taxable Income		20,994	385,669	390,616	407,104	409,727	416,581
	Tax Rates						
Federal Tax	21%	4,409	80,990	82,029	85,492	86,043	87,482
Federal Surtax	4%	176	3,240	3,281	3,420	3,442	3,499
Small Bus Tax Credit	16%	(3,359)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)
Provincial Tax	5%	1,050	23,567	24,062	25,710	25,973	26,658
	10%						
Total Tax		<u>2,276</u>	<u>59,797</u>	<u>61,372</u>	<u>66,622</u>	<u>67,457</u>	<u>69,639</u>

Schedule 10: Ratio Analysis

		2005	2006	2007	2008	2009	2010
Liquidity Ratios							
Current Ratio		20.25	43.33	73.68	82.91	79.27	81.59
Quick Ratio		15.84	39.46	69.82	79.07	75.42	77.73
Debt Structure Ratio		0.15	0.07	0.08	0.09	0.08	0.09
Activity and Operating Ratios							
Accounts Receivables Turnover		12.17	12.17	12.17	12.17	12.17	12.17
Inventory Turnover		26.07	26.07	26.07	26.07	26.07	26.07
Accounts Payable Turnover (Beef)		52.14	52.14	52.14	52.14	52.14	52.14
Accounts Payable Turnover (V.C,BM)		12.17	12.17	12.17	12.17	12.17	12.17
Acct Rec/\$1,000 Sales		82.19	82.19	82.19	82.19	82.19	82.19
Inventory/\$1,000 Sales		27.31	23.92	23.92	23.77	23.86	23.91
Land & Bldgs/\$1,000 Sales		361.48	212.91	207.06	201.42	195.99	190.75
Equipment/\$1,000 Sales		151.56	71.40	54.01	41.00	63.30	46.33
Financial Efficiency							
Total Asset Turnover		2.37	2.34	1.68	1.57	1.58	1.60
Debt servicing Ratio		4.49%	2.75%	1.43%	1.40%	1.37%	1.34%
Debt Carrying Capacity	33%	(99,113.59)	37,912.64	160,201.66	211,613.31	188,181.06	211,389.89
Production Costs							
Raw Materials/Sales		45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Production Labour/Sales		7.0%	4.4%	4.4%	4.4%	4.4%	4.4%
Production OH/Sales		<u>19.1%</u>	<u>13.0%</u>	<u>12.9%</u>	<u>12.5%</u>	<u>12.8%</u>	<u>12.9%</u>
Operating Expenses							
Total Operating Expense/Sales		28.2%	16.1%	15.9%	15.9%	15.9%	15.9%
Sell & Admin/Sales		17.9%	11.2%	11.2%	11.2%	11.2%	11.2%
Interest Expense/Sales		1.3%	0.7%	0.7%	0.6%	0.7%	0.6%
		1	2	3	4	5	6
Average Days Receivables		30	30	30	30	30	30
Average Days Inventory		14	14	14	14	14	14
Average Days Payables Beef		7	7	7	7	7	7
Average Days Payables		30	30	30	30	30	30
Accounts Receivable							
Accounts Receivable		88,767	144,868	147,765	150,721	153,735	156,810
PURE Inventory		29,490	42,168	43,010	43,583	44,622	45,615
Accounts Payable Beef		<u>6,687</u>	<u>10,912</u>	<u>11,131</u>	<u>11,353</u>	<u>11,580</u>	<u>11,812</u>
Accounts Payable Other (V.C,BM)		<u>11,331</u>	<u>18,493</u>	<u>18,863</u>	<u>19,240</u>	<u>19,625</u>	<u>20,017</u>
Total		124,944	197,948	201,906	205,657	209,937	214,237
Cash Conversion Cycle		26	26	26	26	26	26

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Leverage Ratios						
Debt to Asset Ratio	0.41	0.21	0.14	0.11	0.13	0.12
Debt to Equity	0.70	0.27	0.16	0.13	0.15	0.13
Profitability Ratios						
Gross Profit Margin	30.2%	38.0%	37.7%	38.1%	37.8%	37.7%
Net Profit Margin	1.7%	18.5%	18.3%	18.6%	18.3%	18.2%
Return on Equity ROE	7.0%	54.8%	35.6%	32.9%	33.2%	32.8%
Return on Total Assets ROA	7.9%	45.2%	31.9%	30.1%	30.0%	30.0%
Cost of Debt COD	9.3%	9.3%	8.2%	8.2%	8.1%	8.2%
Net Profit Margin *	1.9%	21.9%	21.7%	22.2%	21.9%	21.8%
Return on Total Assets *	8.4%	53.2%	37.7%	35.9%	35.7%	35.8%
Return on Equity *	7.8%	64.9%	42.3%	39.3%	39.8%	39.4%

* Using net income before tax

Schedule 12: Investment Analysis

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Required Return on Equity	Input	20.0%					
<u>Present Value of Equity Investment</u>							
Equity Investment		250,000	-	-	-	-	-
Present Value of Equity Investment		250,000	-	-	-	-	-
<u>Present Value of Equity Returns</u>							
Net Cash Flows to Equity		17,172	268,577	343,616	117,657	(27,379)	41,700
Dividends		-	-	-	229,364	347,021	319,642
Salvage Value		-	-	-	-	-	-
Total Net Cash Flow to Equity		17,172	268,577	343,616	347,021	319,642	361,342
Present Value of Net Cash Flows		1,187,890	1,408,297	1,421,379	1,362,040	1,287,427	1,225,270
Total to Equity Investor	(250,000)	-	-	-	229,364	347,021	319,642
Net Present Value of Equity Investment			937,890				
Initial Cost	(250,000)	1	2	3	4	5	6
IRR	74%	17,172	268,577	343,616	347,021	319,642	361,342
ERR	42%						

Appendix B
Related Schedules

Horizon Manufacturing Inc. PURE

Cost of Goods Manufactured		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Pure Breakdown											
Per tonne of Pure											
Beef		45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
Chicken		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Vegetables		40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Bone Meal		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Tonnes		375	600	600	600	600	600	600	600	600	600
Beef		169	270	270	270	270	270	270	270	270	270
Chicken		38	60	60	60	60	60	60	60	60	60
Vegetables		150	240	240	240	240	240	240	240	240	240
Bone Meal		19	30	30	30	30	30	30	30	30	30
Total		375	600	600	600	600	600	600	600	600	600
Beef											
Animal Weight		1100	pounds								
price/lb		0.25									
Total per animal		275									
Waste		0									
Cost											
	tonne/animal	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Animals	0.242	697	1116	1116	1116	1116	1116	1116	1116	1116	1116
	\$/animal										
Beef	275	191,761	312,955	319,214	325,598	332,110	338,752	345,527	352,438	359,486	366,676
Kill	60	41,839	68,281	69,647	71,040	72,460	73,910	75,388	76,895	78,433	80,002
Gut/Bone	90	62,758	102,421	104,470	106,559	108,691	110,864	113,082	115,343	117,650	120,003
BSE	75	52,299	85,351	87,058	88,799	90,575	92,387	94,235	96,119	98,042	100,003
Beef Total		348,657	569,008	580,388	591,996	603,836	615,913	628,231	640,796	653,612	666,684
	\$/tonne										
Chicken	700	26,250	42,840	43,697	44,571	45,462	46,371	47,299	48,245	49,210	50,194
Vegetables	440	66,000	107,712	109,866	112,064	114,305	116,591	118,923	121,301	123,727	126,202
Bone Meal	88	1,650	2,693	2,747	2,802	2,858	2,915	2,973	3,033	3,093	3,155
Total		442,557	722,253	736,698	751,432	766,461	781,790	797,426	813,374	829,642	846,235
		2066									

Inventory											
days inventory	14										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
tonnes/ year	375	600	600	600	600	600	600	600	600	600	600
tonnes/ week	7.21	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54	11.54
tonnes/day	1.027	1.644	1.644	1.644	1.644	1.644	1.644	1.644	1.644	1.644	1.644
COGM											
Year	768,858	1,099,376	1,121,322	1,136,274	1,163,357	1,189,246	1,204,482	1,222,339	1,242,227	1,263,724	
Week	14,786	21,142	21,564	21,851	22,372	22,870	23,163	23,507	23,889	24,302	
Day	2,106	3,012	3,072	3,113	3,187	3,258	3,300	3,349	3,403	3,462	
Inventory	29,490	42,168	43,010	43,583	44,622	45,615	46,199	46,884	47,647	48,472	

Horizon Manufacturing Inc. PURE

Salarie Expenses											
Salaries	\$/year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
President	50,000	46,760	47,695	48,649	49,622	50,614	51,626	52,659	53,712	54,786	55,882
Operations	50,000	46,760	47,695	48,649	49,622	50,614	51,626	52,659	53,712	54,786	55,882
CPP	4.95%	4,629	4,722	4,816	4,913	5,011	5,111	5,213	5,317	5,424	5,532
EI	1.98%	1,852	1,889	1,926	1,965	2,004	2,044	2,085	2,127	2,170	2,213
Total		100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869	117,166	119,509
Marketing Expenses											
Marketing and Sales											
Representative Salary		23,380	23,847	24,324	24,811	25,307	25,813	26,329	26,856	27,393	27,941
CPP	4.95%	1,157	1,180	1,204	1,228	1,253	1,278	1,303	1,329	1,356	1,383
EI	1.98%	463	472	482	491	501	511	521	532	542	553
Total Fixed	25,000	25,000	25,500	26,010	26,530	27,061	27,602	28,154	28,717	29,291	29,877
Variable	4,500	54,000	55,080	56,182	57,305	58,451	59,620	60,813	62,029	63,270	64,535
Total		79,000	80,580	82,192	83,835	85,512	87,222	88,967	90,746	92,561	94,412

Horizon Manufacturing Inc. PURE

Receivables										
Days Recievable	30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sales Revenue										
Year	1,080,000	1,762,560	1,797,811	1,833,767	1,870,443	1,907,852	1,946,009	1,984,929	2,024,627	2,065,120
Month	90,000	146,880	149,818	152,814	155,870	158,988	162,167	165,411	168,719	172,093
Week	20,769	33,895	34,573	35,265	35,970	36,689	37,423	38,172	38,935	39,714
Day	2,959	4,829	4,926	5,024	5,125	5,227	5,332	5,438	5,547	5,658
Accounts Recievable										
	88,767	144,868	147,765	150,721	153,735	156,810	159,946	163,145	166,408	169,736

Horizon Manufacturing Inc. PURE

Accounts Payable											
	Accounts Payable										
	Direct purchases	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Year	486,523	794,005	809,885	826,083	842,604	859,456	876,645	894,178	912,062	930,303
	Month	40,544	66,167	67,490	68,840	70,217	71,621	73,054	74,515	76,005	77,525
	Week	9,356	15,269	15,575	15,886	16,204	16,528	16,859	17,196	17,540	17,890
	Day	1,333	2,175	2,219	2,263	2,309	2,355	2,402	2,450	2,499	2,549
	Accounts Payable										
		9,331	15,227	15,532	15,843	16,160	16,483	16,812	17,149	17,492	17,841
Days Payable	7										
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Beef		348657	569,008	580,388	591,996	603,836	615,913	628,231	640,796	653,612	666,684
Year		29055	47,417	48,366	49,333	50,320	51,326	52,353	53,400	54,468	55,557
Month		6705	10,942	11,161	11,385	11,612	11,844	12,081	12,323	12,569	12,821
Week		6705	10,942	11,161	11,385	11,612	11,844	12,081	12,323	12,569	12,821
Day		955	1,559	1,590	1,622	1,654	1,687	1,721	1,756	1,791	1,827
Account Payable Beef		6687	10912	11131	11353	11580	11812	12048	12289	12535	12786
Days Payable	30										
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
The rest											
Packaging		43,966	71,752	73,187	74,650	76,144	77,666	79,220	80,804	82,420	84,069
Vegetables		66,000	107,712	109,866	112,064	114,305	116,591	118,923	121,301	123,727	126,202
Chicken		26,250	42,840	43,697	44,571	45,462	46,371	47,299	48,245	49,210	50,194
Bone Meal		1,650	2,693	2,747	2,802	2,858	2,915	2,973	3,033	3,093	3,155
Total/year		137,866	224,997	229,496	234,086	238,768	243,543	248,414	253,383	258,450	263,619
Month		11,489	18,750	19,125	19,507	19,897	20,295	20,701	21,115	21,538	21,968
Week		2,651	4,327	4,413	4,502	4,592	4,684	4,777	4,873	4,970	5,070
Day		378	616	629	641	654	667	681	694	708	722
	Accounts Payable (V,C,BM)	11,331	18,493	18,863	19,240	19,625	20,017	20,418	20,826	21,242	21,667
	Total AP	18,018	29,405	29,993	30,593	31,205	31,829	32,466	33,115	33,778	34,453