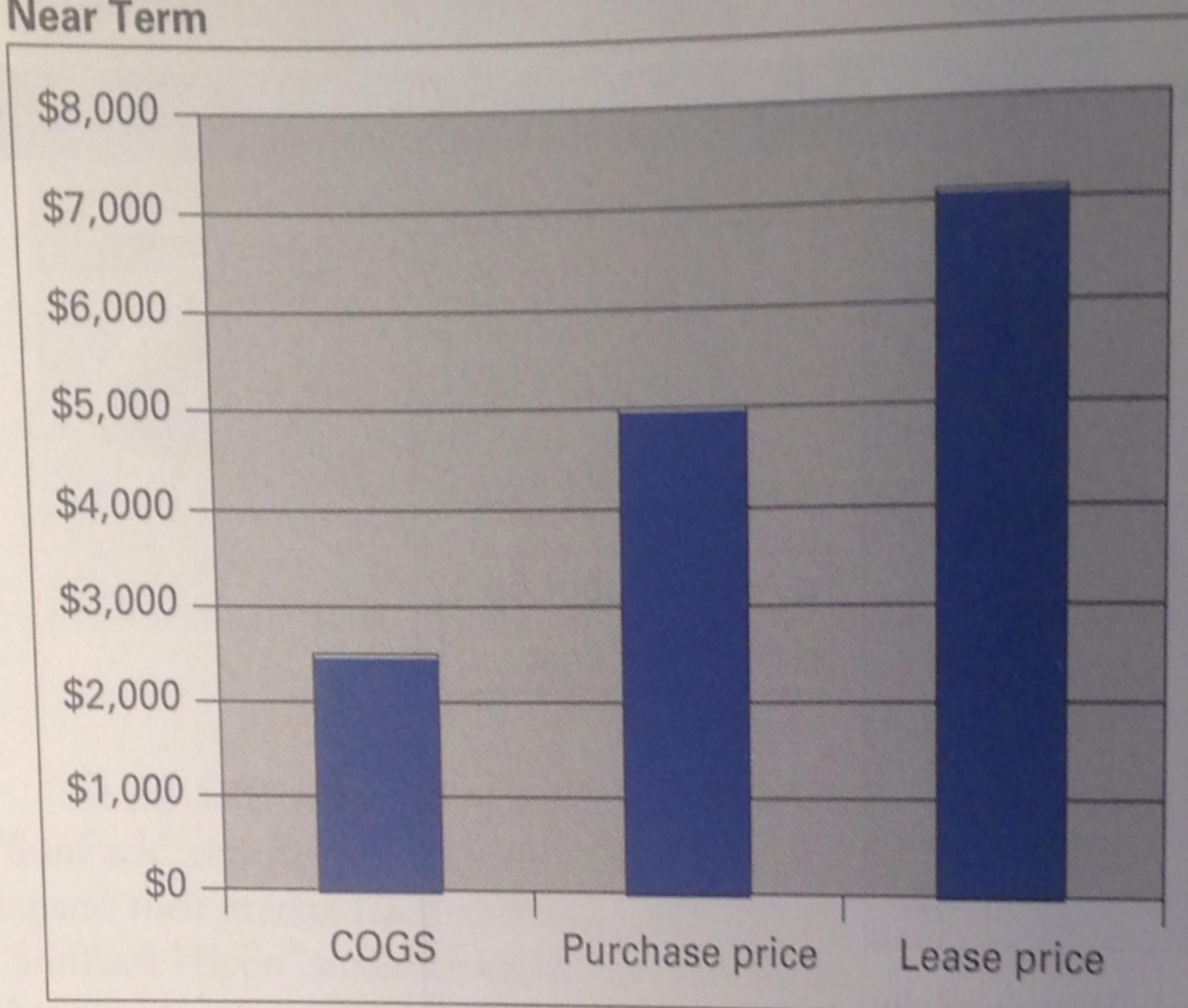


The team had determined that developing a lease option for the BigBelly would alleviate new-buyer jitters by having SPC retain the risk of machine ownership—a move that could increase margins by 10%. Over the next five years, SPC expected to expand its potential customer pool by reducing the selling price to around \$3,000—along with a corresponding drop in materials costs (see Exhibit 3.4).

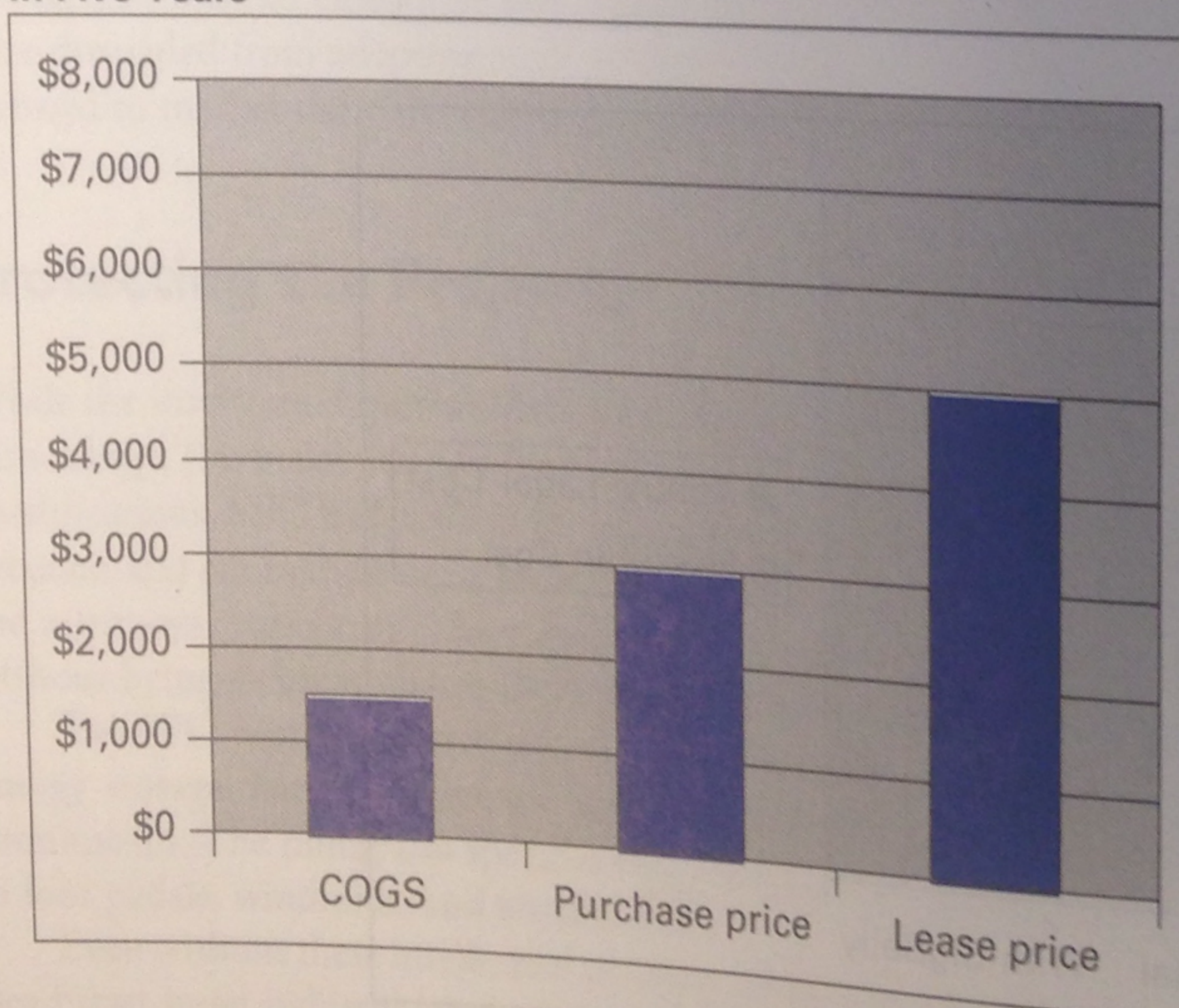
EXHIBIT 3.4

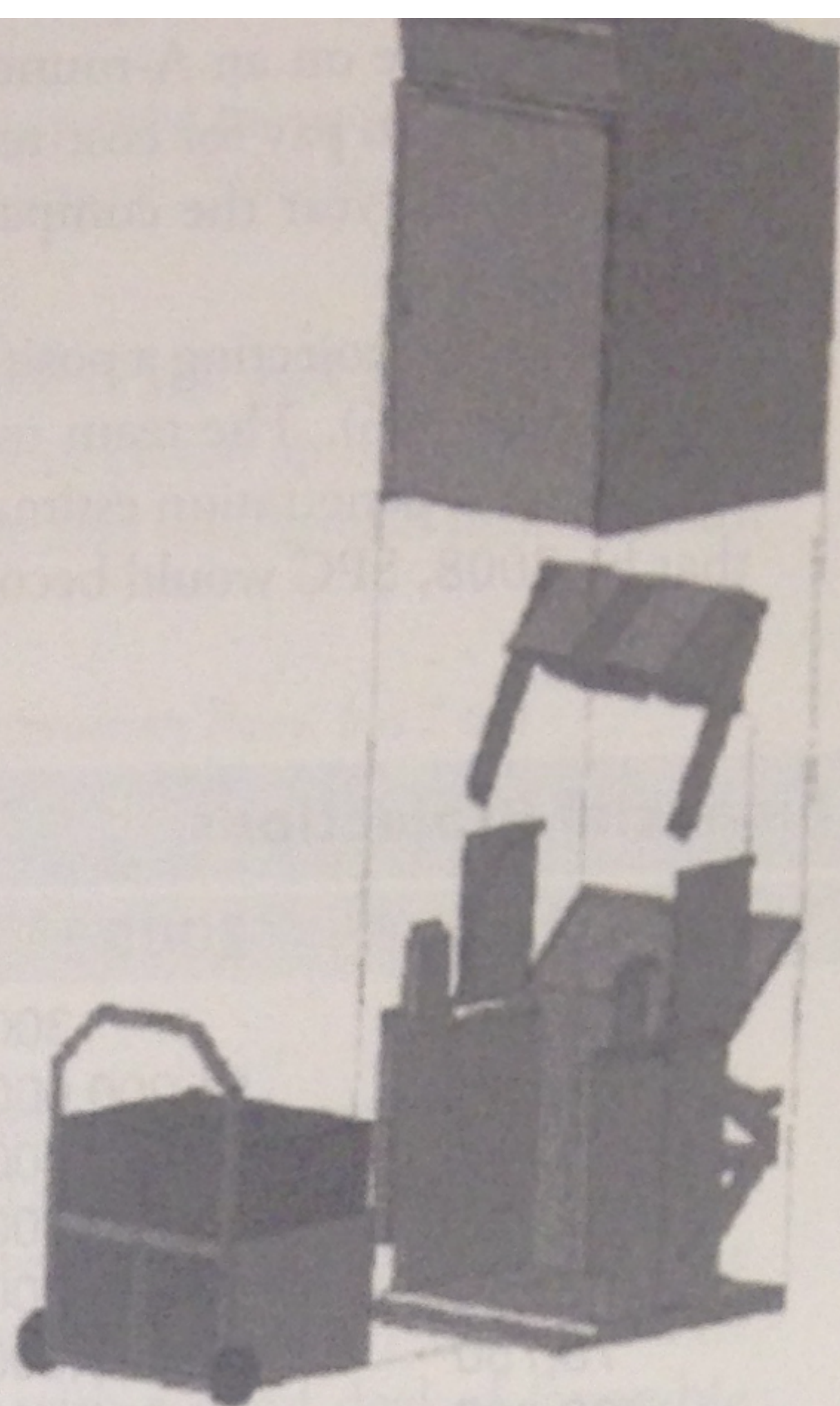
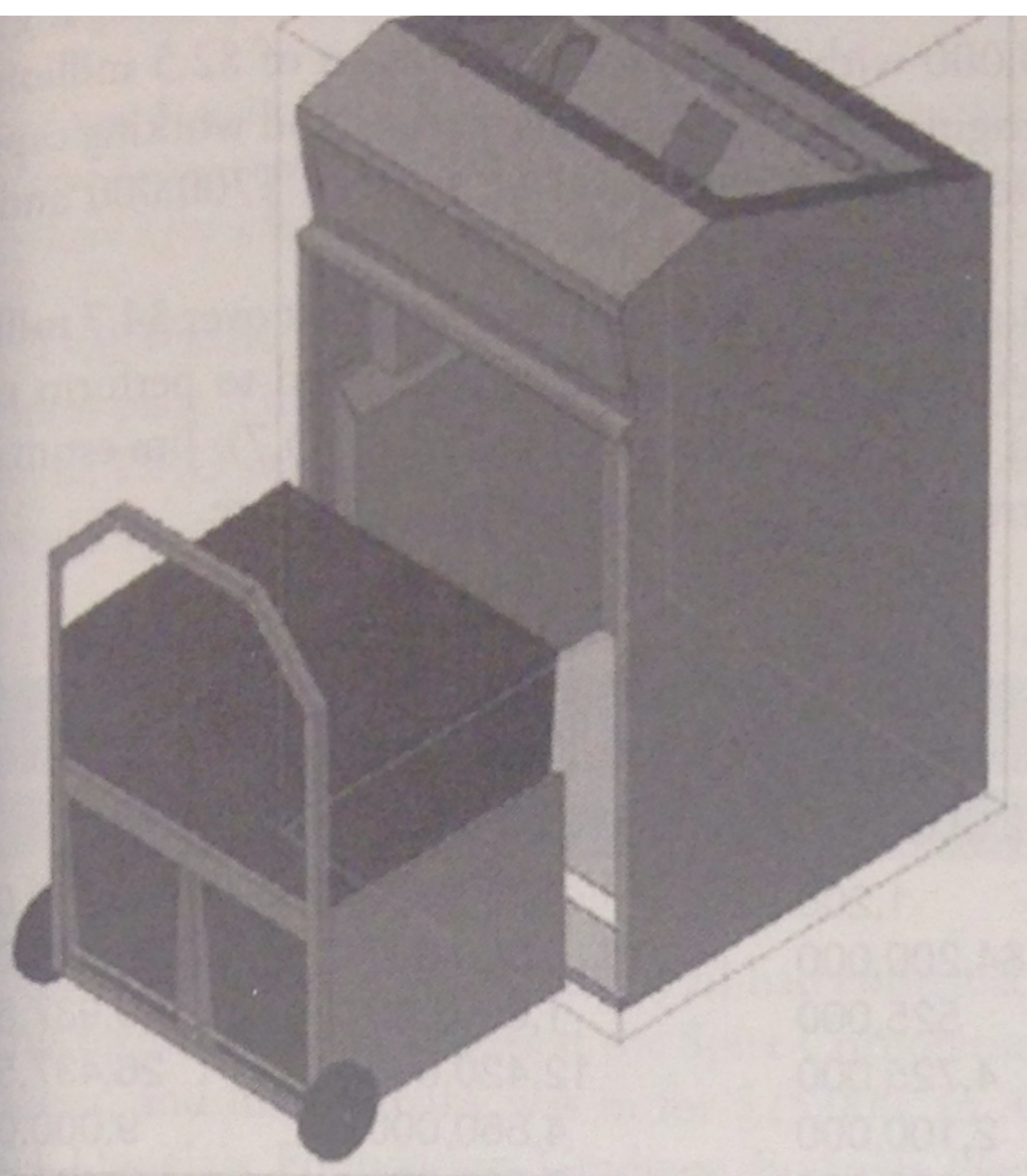
BigBelly Economics

Near Term



In Five Years





With steel prices escalating, the SPC team designed their new machines with 30% fewer steel parts. They also cut the size of the solar panel and the two-week battery storage capacity in half and replaced the expensive screw system of compaction with a simpler, cheaper, and more efficient sprocket-and-chain mechanism (see Exhibit 3.5).

In order to offer an effective service response capability, the team tried to restrict its selling efforts to the New England area, although “a sale was a sale.” One concern that kept cropping up was that this unique device would be a tempting target for vandals.

Team members explained that the solar panel on top was protected by a replaceable sheet of Lexan,⁵ that all mechanical parts were entirely out of reach, and that the unit had already proven to be quite solid. The general feeling, Jim noted, was that if the machine could be messed with, people would find a way:

One state park ranger was worried that it would get tossed into the lake, so I assured him that the units would be very heavy. He said, “So they’ll sink really fast. . . .”

Jim added that the overall response had been very favorable—so much so that once again, there was a real need for speed:

We have pre-sold nearly half of our next run to places like Acadia National Park in Maine, Six Flags amusement park in Massachusetts, Harbor Lights in Boston, beaches on Nantucket, and to Harvard University. Fifty percent down-payment deposits should be coming in soon, but that won’t cover what we’ll need to get this done.

⁵ A clear, high-impact-strength plastic used in many security applications.

Projections and Funding

During this "early commercialization period," Jim was committed to moderating investment risk by leveraging on-campus and contractor facilities as much as possible. The company was hoping to close on an A-round of \$250,000 with a pre-money valuation of \$2.5 million by early summer to pay for cost-reduction engineering, sales and marketing, and working capital. The following year the company expected to raise a B-round of between \$700,000 and \$1 million.

SPC was projecting a positive cash flow in 2006 on total revenues of just over \$4.7 million (see Exhibit 3.6). The team members felt that, if their products continued to perform well, their market penetration estimates would be highly achievable (see Exhibit 3.7). Jim estimated that by 2008, SPC would become an attractive merger or acquisition candidate.

EXHIBIT 3.6 SPC Financial Projections

	2004	2005	2006	2007	2008
BigBelly Unit	50	300	1,200	3,600	9,000
Sales	\$225,000	\$1,200,000	\$4,200,000	\$10,800,000	\$22,500,000
BigBelly Revenues	0	120,000	525,000	1,620,000	3,937,500
Hippo Royalty Revenues	225,000	1,320,000	4,725,000	12,420,000	26,437,500
Total Income	146,250	660,000	2,100,000	4,860,000	9,000,000
COGS	78,750	660,000	2,625,000	7,560,000	17,437,500
Gross Income	400,000	1,600,000	2,600,000	5,000,000	11,000,000
SG&A	(\$321,250)	(\$940,000)	\$25,000	\$2,560,000	\$6,437,500
EBIT					

EXHIBIT 3.7 Market Size and Penetration

	2004	2005	2006	2007	2008
Top-Down					
SunPack Market* (Billion)	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
SunPack % Penetration	0.0%	0.1%	0.5%	1.2%	2.6%
Bottom-Up					
Total Potential Customers**	30,000	30,000	30,000	30,000	30,000
Potential Units/Customer	20	20	20	20	20
Total Potential Units	600,000	600,000	600,000	600,000	600,000
Cumulative Units Sold	50	350	1,550	5,150	14,150
Cumulative % Penetration	0.0%	0.1%	0.3%	0.9%	2.4%

* Assume a \$600,000,000 BigBelly market (5% of \$12 billion worth of waste receptacles sold to target segments), plus a \$400,000,000 power unit market (\$1.2 billion worth of compacting dumpsters sold/\$12,000 average price × \$4,000 per power unit).

** Assume 400 resorts, 600 amusement parks, 2,000 university campuses, 5,000 commercial campuses, 2,200 hotels, 4,000 municipalities, 57 national parks, 2,500 state parks and forests, 3,700 RV parks and campgrounds, and 17,000 fast-food and retail outlets.