

JENSON SOLUTIONS' HEALTHCHECK - NEWCO LIMITED

EXAMPLE ONLY

JENSON SOLUTIONS' HEALTHCHECK - NEWCO LIMITED

Detailed below is a brief summary of the highest priority ('Red') issues we identified as part of our review. Detailed later in the report are all the Issues identified and a suggested action plan.

ISSUE	ISSUE IDENTIFIED	IMPLICATION	SOLUTION	SAVING	START	END	JENSON'S SOLUTION
●	No written Health & Safety Policy	HSE can fine £5,000 to unlimited amount	H&S Policy		Month 1	Ongoing	Provide H&S Policy
●	Compliance Issue	Implication	Solution		Month 1	Month 1	
●	Compliance Issue	Implication	Solution	Yes	Month 1	Annual	
●	Compliance Issue	Implication	Solution		Month 1	Ongoing	
●	Compliance Issue	Implication	Solution	Yes	Month 1	Ongoing	
●	Compliance Issue	Implication	Solution		Month 1	Annual	
●	Compliance Issue	Implication	Solution		Month 1	Month 1	
●	Compliance Issue	Implication	Solution	Possible	Month 1	Ongoing	
●	Compliance Issue	Implication	Solution		Month 1	Annual	
●	Compliance Issue	Implication	Solution		Month 1	Month 1	
●	Compliance Issue	Implication	Solution		Month 1	Annual	
●	Largest customer has a poor credit rating	Failure of customer could lead to bankruptcy	Credit Insurance		Month 1	Ongoing	
●	Risk Issue	Implication	Solution		Month 1	Month 1	
●	Risk Issue	Implication	Solution		Month 1	Month 1	
●	Risk Issue	Implication	Solution	Yes	Month 1	Annual	
●	Risk Issue	Implication	Solution		Month 1	Ongoing	
●	No information on gross margin by products	Prices and sales effort not optimised	Improve Accounting		Month 2	Ongoing	Accounting Review
●	Information Issue	Implication	Solution		Month 1	Annual	
●	Information Issue	Implication	Solution		Month 1	Month 1	
●	Information Issue	Implication	Solution		Month 1	Ongoing	
●	Information Issue	Implication	Solution		Month 1	Annual	
●	Lost 37% of customers in twelve months	New customers low margin, high marketing cost	Improve Systems		Month 1	Ongoing	System Review
●	Operations Issue	Implication	Solution		Month 1	Month 1	
●	Operations Issue	Implication	Solution		Month 1	Annual	
●	Do not use online VAT payment system	Paying online gives another seven days credit	Register Online		Month 1	Month 1	Briefing Paper
●	Cash Issue	Implication	Solution		Month 1	Month 1	
●	Cash Issue	Implication	Solution	Yes	Month 1	Month 1	
●	Cash Issue	Implication	Solution		Month 1	Annual	
●	Commission linked to sales not margins	Sales effort on high value and low margin sales	Change Commission		Month 1	Ongoing	
●	Profit Issue	Implication	Solution		Month 1	Ongoing	
●	Profit Issue	Implication	Solution		Month 1	Annual	
●	New site struggling and risking expansion	Systems not codified relying on fire fighting	Improve Systems		Month 1	Ongoing	System Review
●	Expansion Issue	Implication	Solution		Month 1	Ongoing	
●	Expansion Issue	Implication	Solution		Month 1	Annual	
●	Exit strategy reliant on excessive growth	Growth at expense of systems, risk, profits	Alternative Exit		Month 1	Ongoing	MBO Review

Detailed below is a summary of each of the areas we looked at.

The Jenson Solutions' HealthCheck covers hundreds of issues in order to identify potential problems and potential solutions. Below is a summary of our findings for NEWCO:

1. COMPLIANCE

We review compliance with dozens of areas of regulations and legislation including: VAT, PAYE, Health & Safety, Employment Law and the Companies Act.

NEWCO have complied with most areas of legislation, however, it has not complied with some of the less well known areas of legislation including: the Data Protection Act, Health & Safety rules and Stakeholder Pension rules. In total NEWCO is not compliant with eleven areas of legislation and these need addressing as soon as possible (see earlier for more details). In addition, NEWCO is not taking advantage of many areas of the legislation that can lead to a reduction in tax payments and cash back schemes (see below for more details). Detailed below is a Compliance action plan that can help NEWCO to be more compliant and also take advantage of various schemes to receive cash back or reduce future outgoings.

2. RISK

We consider the risks faced and how they are managed and we identify ways to mitigate, manage or eliminate them.

NEWCO are at an early stage of development and therefore faces many risks. NEWCO is heavily dependent on a customer who provides over 30% of sales. If they were to fail or were lost then the ability of NEWCO to continue would be in doubt. We ran a credit check on the largest customer and its rating is poor and we therefore suggest obtaining credit insurance for the customer. We also suggest that the key employees are closely tied into the future of the business with share options and bonus schemes as currently staff turnover is very high, which is leading to poor service, higher costs and is hampering growth.

3. INFORMATION

We look at the information produced, its accuracy, timeliness and appropriateness.

NEWCO produces accounts with little management information on gross margins. At the moment key strategic decisions are based on information which may not be totally accurate. Analysis of gross margins by product may show that the largest selling product is generating one of the lowest margins and it may be appropriate to focus less sales effort on this product. Detailed below is an action plan to improve management information.

4. OPERATIONS

We look at how products and services are delivered and whether the operations are able to support growth.

NEWCO's operations have not kept pace with growth and this is causing problems with customer retention. Systems are still manual and subject to many small errors and this is compounded by limited account management. Although automated systems are expensive and time consuming to implement we believe the systems can be radically improved by simply linking up the various manual systems more effectively. This would take minimal time, would remove continual entry of information and improve customer service. Our suggestions are detailed below.

5. CASH

We look at cash management and ways to improve cash management and potential solutions to issues identified.

NEWCO is cash constrained despite the profitable growth due to poor account management, ad hoc debtor collection, high marketing spend to win new customers to make up for the lost customers, high training costs and learning curves due to the high staff turnover and high staff numbers due to the manual systems. We have identified a range of areas that can improve the cash of NEWCO in the short to medium term and this could lead to the repayment of the overdraft and remove the need to raise external finance.

6. PROFITS

We look at the underlying profitability and ways in which to improve profits or reduce losses in the short to long term.

NEWCO is not maximising its short term or medium term profitability due to the issues identified in the Cash section above. Although it is the strategy to forgo short-term profit maximisation to achieve high growth this stated policy has led to the lack of a profit culture in NEWCO that has led to a range of issues that we have identified (see below).

7. GROWTH

We look at areas affecting the ability to grow effectively in the short to long term.

NEWCO has grown substantially over the last year, however, the foundations are not optimal (see above) and this is leading to a loss of some customers and employees. These losses are being masked by the underlying growth, and yet they are costing NEWCO substantial amounts and therefore we feel NEWCO needs to focus more on customer and employee retention. This would also reduce the cash requirements of NEWCO and actually underpin further expansion without requiring external equity or debt (see below).

8. STRATEGY

We consider the strategy of NEWCO and whether it is achievable given the current performance.

NEWCO has a long-term strategy to grow rapidly to interest a large trade buyer. This growth is putting huge pressures on the foundations, underlying profits and cash flows of NEWCO and we feel that a likely acquirer could be put off by the inherent risks and fragility that comes with a business that has grown too fast. We feel that NEWCO may benefit from more stable and less risky growth with a backup plan of seeking an exit via a management buy-out (see below for more details).

SUMMARY OF RESULTS

The table below shows the issues looked at from Compliance to Strategy (512 issues were not applicable to NEWCO), and we have then analysed the responses into 35 **Red Issues** (where there is an issue which needs to be addressed as a priority), 198 **Amber Issues** (some form of issue) and 861 **Green Issues** (where there is no identified issue). The Ratings detailed in the table below (Current, 3 Month, 12 Month) show how we have rated NEWCO in each of the areas we have reviewed - the smaller the bar the lower the rating. The Current Rating shows that there are the greatest issues with Operations and Cash with relatively strong Growth and Strategy. We have then identified a target 3 Month Rating, based on the Action Plan detailed below, and a 12 Month Rating target. From this it can be seen that within 3 Months there can be significant improvements in Compliance, Information, Operations, Growth and Cash. As is typical, changes to Risk, Profits and Strategy take closer to 12 months before significant improvements are seen.

Category	Not Applicable	Green Issues	Amber Issues	Red Issues	Solutions Put Forward	Current Rating	3 Month Rating	12 Month Rating
Compliance	275	261	67	11	Issues can be quickly addressed			
Risk	67	96	22	5	Improvements to aid customer / employee retention			
Information	54	192	21	5	Key management information systems improvements			
Operations	32	36	18	3	Improvements to systems to enhance delivery			
Cash	12	45	13	4	Existing cash flows can be improved			
Profit	25	162	35	3	Can raise profits without sacrificing growth			
Growth	35	36	14	3	Solutions offered to ensure growth is structured			
Strategy	12	33	8	1	Alternative strategic options offered with less risk			

The above highlights that of the hundreds of issues looked at a relatively low number of 35 Red Issues were identified compared to similar businesses of this size (usually over 50). However, there are nearly two hundred Amber Issues, which although not a high priority are issues that mean NEWCO is not achieving its full potential.

IMPLICATIONS OF RED ISSUES

The table below highlights the implications of not complying with the Red Issues identified. We have split the implications into a range of categories as follows:

- **Legal** - potential fines, potential legal disputes, possibility that the directors are prosecuted.
- **Funds** - will have an impact on funds available in the business.
- **Earnings** - will have an impact on future earnings (NB: excludes fines etc that have a short-term implication).
- **Expansion** - puts NEWCO's ability to expand at risk.
- **Future** - puts NEWCO's ability to continue in operation at severe risk.

Category	Red Issues	Legal	Funds	Earnings	Expansion	Future	Implications
Compliance	11						Some legal, some fines and some that would affect future of NEWCO
Risk	5						Mainly around earnings and expansion but also on the future of NEWCO
Information	5						Main implications on earnings and expansion
Operations	3						Main implications on earnings and expansion
Cash	4						Main issues on funds but also impact on expansion and viability
Profit	3						Main issues on earnings but also on the future of NEWCO
Growth	3						Main implication is on expansion but also on the future of NEWCO
Strategy	1						Main implication is on earnings

The above table shows that most of the implications are on funds, earnings and expansion and dealing with the issues can improve these significantly.

DETAILS OF 35 RED AND 198 AMBER ISSUES AND SUGGESTED ACTIONS

Detailed below are all the Red and Amber Issues we identified together with the implications and a suggested action and any potential solutions that Jenson Solutions offers. We also recognise that not everything can be dealt with immediately and therefore have included a suggested start date and end date to help prioritise areas.

ISSUE	ISSUE IDENTIFIED	IMPLICATION	SOLUTION	SAVING	START	END	JENSON'S SOLUTION
	Compliance						
●	No written Health & Safety Policy	HSE can fine £5,000 to unlimited amount	H&S Policy		Month 1	Ongoing	Provide H&S Policy
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●	Compliance Issue	Implication	Solution		Month 1	Month 1	
●	Compliance Issue	Implication	Solution		Month 1	Annual	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
●	Compliance Issue	Implication	Solution	Yes	Month 2	Month 2	
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●	Compliance Issue	Implication	Solution		Month 2	Ongoing	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
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●	Compliance Issue	Implication	Solution		Month 2	Annual	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
●	Compliance Issue	Implication	Solution		Month 2	Annual	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
●	Compliance Issue	Implication	Solution		Month 2	Ongoing	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	
●	Compliance Issue	Implication	Solution		Month 2	Annual	
●	Compliance Issue	Implication	Solution	Possible	Month 2	Month 2	
●	Compliance Issue	Implication	Solution		Month 2	Month 2	

REPORT CONTINUES HIGHLIGHTING ALL 35 RED ISSUES AND 198 AMBER ISSUES IN: COMPLIANCE, RISK, INFORMATION, OPERATIONS, CASH, PROFITS, GROWTH AND STRATEGY.

REPORT CONTINUES TO DETAIL THE IMPLICATIONS, POTENTIAL SOLUTIONS, POSSIBLE SAVINGS, PRIORITY DATES AND JENSON'S SOLUTIONS.

ABOUT JENSON SOLUTIONS LIMITED

Jenson Solutions offers a range of services. We also provide a follow-on service called the Jenson Monitoring Service:

JENSON SOLUTIONS MONITORING SERVICE

We provide an ongoing Monitoring Service that follows on from this report and it covers the following areas:

- Once a year review of the Budget - we will carry an annual Budget review for one day aimed at identifying weaknesses and issues prior to Board approval.
- Mentor - each client will have a Mentor assigned (one of our Consultant Finance Directors) who will be available for general advice for up to one hour per month.
- Helpline - each client will have access to our Helpline service (additional charges apply) for questions and queries about business issues.
- Compliance update - we will update the Group for any changes in compliance. We monitor changes to legislation on hundreds of different areas.
- Purchasing savings - we aim to reduce purchasing costs for all our Monitoring Service clients by being able to negotiate discounts for clients.
- Resources to help during busy periods at a discount to our standard rates.
- Best practice - we provide best practice guidelines on a range of areas.
- Discount on other Services - we provide a 10% discount on our standard prices.

JENSON SOLUTIONS HEALTHCHECK SERVICE

- We review compliance, risk, information, cash, operations, profits and growth.
- We go through hundreds of questions with Management.
- We provide a detailed report of our findings.
- Our report includes a suggested action plan.

CONTACT US:

If you are interested in any of services please contact:

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Jenson Solutions Limited is registered in England and Wales at Communications House, 26 York Street, London, W1U 6PZ with the registered number: 04279636 and is regulated by the Institute of Chartered Accountants in England and Wales.



FINANCIAL RESOURCES

We provide part-time and interim financial resources from: Finance Directors, Financial Controllers and Finance Assistants.

- Finance Directors - interim Finance Directors prior to a full-time appointment and part-time Finance Directors if full-time is not required.
- Financial Controllers - we will produce Management Accounts and Statutory Accounts for the organisation but will be onsite and therefore properly involved.
- Finance Assistants - they support the Finance Directors and Financial Controllers to ensure a cost effective service.

FINANCIAL PROJECTS

We assist where there are limited internal resources or expertise:

- IFRS conversion projects.
- FRS 20 share based valuation work.
- Mergers and Acquisition support.
- Financial modelling and Budgeting.
- Financial systems and controls improvements.

FINANCIAL REPORTS

We provide a number of Financial Reports for shareholders and potential investors:

- Financial Due Diligence reports - for potential acquirers/investors.
- Pre Disposal report - aimed at ensuring the highest possible disposal proceeds.
- Corporate Financial Reviews - an overview of an organisation and action plan.



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