

## Hunter Wise Commodities LLC

### Institutional Sales Division

### Business Plan Proposal

03.07.13

#### EXECUTIVE SUMMARY

This proposal was created by Steve Fitch, Director of Institutional Sales at Hunter Wise Commodities, LLC ("HWC") at the request of Special Corporate Monitor Melanie Damian. This proposal is provided as an analytical tool to enable the Corporate Monitor to make an informed decision as to the current and ongoing viability of the Institutional Sales Division ("ISD") as a profitable business enterprise.

#### Strategic Considerations

A typical institutional sales transaction is generally a high volume – low margin proposition. This reality presents a challenge to start-up companies seeking to establish a foothold in this space because they must be willing and able to absorb losses until their net revenue exceeds their start-up costs. Since HWC has previously absorbed these costs and is now beginning to reap the financial benefits, this obstacle is no longer an issue.

The HWC Institutional Sales Division was initiated in 2011 by Hunter Wise Commodities CEO Fred Jager. It was conceived as a strategic add-on component to HWC's initial business model to meet an increasing demand for fully-paid physical precious metals among institutional customers, government agencies, and high-net worth private investors. The goal was to build the ISD to a point where its sales would be approximately 75% of HWC's overall sales volume. To facilitate this agenda HWC has expended a considerable amount of time, effort and resources in infrastructure development and market research. The associated expenses are estimated to be in the low six-figures.

The tangible results of this effort and expenditure can be summarized as follows:

- HWC was awarded a non-exclusive, multi-year contract to sell 400 oz gold bullion bars to the U.S. Mint.
- HWC has established contractual business relationships with Brinks and ViaMat for the purpose of storing fully-paid, allocated bullion on behalf of institutional customers.
- The ISD has established strategic relationships with financial institutions and Family offices that have recently begun to refer their high-net worth clients.
- HWC has redesigned its website at considerable expense to create a section devoted exclusively to institutional customers. The content and organization of this section was based largely upon feed-back obtained from institutional customer focus groups.



- The ISD has developed Allocated Storage Agreements, internal AML compliance policies and procedures, account management systems, and all trade-related client correspondence.
- The ISD has developed a proprietary trading platform which enables institutional customers to place buy and sell orders via an on-line interface with the HWC trade desk.
- The ISD has developed an extensive database of potential customers and strategic referral partners as a result of its attendance at multiple Family Office seminars throughout the U.S.

#### **Tactical Considerations**

The operational objective is to generate operating profits as quickly as possible. This will be achieved by taking advantage of the infrastructure referenced above while simultaneously sharply reducing overhead expenses. Fred Jager has agreed to provide adequate office space and infrastructure in exchange for a nominal rent of \$200 per month. I (Steve Fitch) will operate the ISD on a solo basis during the initial 12 months of operations. Fred Jager will continue in his role as an unpaid Marketing Consultant.

To further reduce overhead expenses I will agree to reduce my current (former) base compensation by 40% from \$8,500 to \$5,100 per month. In addition to my base salary will receive a commission amounting to 10% of quarterly E.B.I.T. Additionally I will agree to function as an outside consultant / independent contractor thereby eliminating the additional expense of employee benefits.

The ISD will take advantage of its multi-year contract with the U.S. Mint by establishing a sub-contracting Agreement with a bullion bank. This will greatly reduce our available margin, but it will also eliminate the need for third-party financing. It also eliminates the challenge of finding a reliable source of product at a cost-competitive price. Furthermore the sub-contractor would necessarily shoulder all logistical burdens associated with the product shipment. Under this arrangement the ISD would be narrowly focused upon contract administration.

#### **Financial Considerations**

Since it is standard business practice for customers to deposit sufficient funds into their accounts prior to order placement, the ISD has no trade-related receivables on delivery transactions. Customers who choose to store their product with the ISD on a fully-paid, allocated basis will pay accrued fees to the ISD on a quarterly basis. Customers also pre-pay all shipping and insurance costs.

The ISD will make arrangements with the U.S. Treasury Department to designate its bullion bank sub-contractor as its payee on all invoices submitted in connection with bullion deliveries. All shipping costs associated with product delivery to the U.S. Mint at West Point, NY are initially borne by the sub-contractor therefore eliminating any associated cash flow burden on the ISD.

It will be necessary to modify the formerly bifurcated HWC website to eliminate all reference to Dealer recruitment under the former financed physical commodity business model. It will also be advisable to rebrand the ISD in the aftermath of the negative publicity surrounding the current C.F.T.C. litigation. The cost of website modification and rebranding should be minimal.

#### **Resource Requirements**

As explained above, the bulk of the required resources are already in place so immediate utilization is simply a matter of granting the ISD access to them. Office space and equipment is currently available at a nominal rent. It would also be highly advisable for the ISD to resurrect and maintain business relationships with Brinks, ViaMat, First Foundation Bank, Dillon Gage, and A-Mark.

#### **Decision Making Criteria**

The inherent critical success factors in this business model are as follows:

- Sales, marketing and managerial expertise within the physical precious metals market niche
- Have the ability to source the product at cost effective prices
- Have the back-office accounting structure and procedures in place to facilitate the transaction
- Develop AML policies and procedures in compliance with federal regulations
- Have an effective pricing model
- Have a coherent and viable marketing strategy
- Maintain a profitable relationship between overhead costs and sales revenue
- Have government Contract Administration experience

In summary, it is my firm conviction that the ISD has already achieved each of these critical success factors. Should the Special Corporate Monitor conclude otherwise and opt to forego this opportunity, then I am fully prepared to pursue it independently of the ISD.

Appendix 1 – Marketing Plan

Appendix 2 – Operational Plan

Appendix 3 – Financial Plan

## **APPENDIX 1 MARKETING PLAN**

### **U.S. Mint Contract**

Since the ISD has already received a contract award from the U.S. Mint, all of the requisite sales and marketing efforts necessary to attain that goal are obviously complete. Nevertheless, given the unfortunate circumstances surrounding the recent C.F.T.C. litigation it would be of practical benefit to find a bullion bank that would be interested in using ISD's contract to sell their gold bullion inventory to the U.S. mint.

### **Website**

The website will be used in lieu of expensive marketing brochures to educate prospective customers as to the benefits of owning physical precious metals as a means of wealth preservation via portfolio diversification. The website will continue to be a repository of archived research papers, third-party opinion, and relevant newsworthy developments. The current bifurcated design must be modified by eliminating the section related to Dealer marketing and the financed physical commodity business model. It may also be advisable to rebrand the ISD.

The ISD will establish a contract with a website marketing company with specific expertise in Search Engine Optimization. The goal is to use the website as an effective marketing tool to bring the ISD to the attention of prospective customers. The monthly fee for this service is referenced in Appendix 3.

### **Viral Marketing**

High net worth individuals are frequently centers of influence among their friends, business associates, peer group, and family members. ISD will sell physical precious metals at extremely competitive prices and will provide exemplary customer service. This value proposition will greatly enhance the likelihood that ISD customers will be comfortable in referring us to like-minded individuals within their sphere of influence.

### **Prospective Customer Database**

As previously indicated in the Executive Summary, the ISD has amassed a database of several hundred prospective institutional customers as a result of our attendance and participation at various Family Office seminars throughout the U.S. and in Geneva, Switzerland. Each of these leads will be pursued via the contact information contained within the database.

### **Pricing**

ISD purchases physical precious metals from various suppliers at deep-discount wholesale prices. We resell the product to our customers at 75 basis points over our cost. This situation enables us to sell product at extremely competitive prices.

### **Fred Jager – Marketing Consultant**

Fred Jager is, and has been a prominent and highly respected member of the local business community for many years. As the owner of an international, award-winning investment banking firm he is also a frequent guest speaker at investment related seminars through the U.S. and abroad. His extensive business contacts will be an ongoing source of prospective customers.

### **Growing Product Demand**

Macro economic conditions within the U.S. coupled with geo-political turmoil around the world have fueled an unprecedented demand for physical precious metals – particularly gold and silver. We fully expect this trend to continue over the next several years. This is the primary reason behind the initiative to establish the ISD.

### **Director of Sales and Marketing - Duties and Responsibilities**

I will pursue all current sales leads within our database along with new leads generated from the sources referenced above. I will write all website content and any supplemental marketing materials as needed. I will attempt to establish a sub-contractor relationship with a bullion bank to take advantage of our U.S. Mint contract. I will be the Contract Administrator. If the decision is made to re-brand the ISD, I will develop a logo and modify all client correspondence accordingly.

## **Appendix 2 OPERATIONAL PLAN**

### **Infrastructure Requirements**

In addition to the office space and equipment which Fred Jager has agreed to provide for the nominal monthly rent of \$200 per month, the following will be required:

- Access to the ISD's proprietary account management software
- Access to the ISD's Operations, and Client Portals
- Reestablishment of product supplier relationships so that the product can be purchased at discount wholesale prices
- A bank account
- A Safe Deposit Box for overnight bullion storage
- Written Anti-Money Laundering Policies and Procedures
- Phone Recording Device for Order Placement
- Trade Related Customer Correspondence Documents
- Customer Allocated Storage Agreement
- Customer Account Application
- Allocated Storage Agreement with Brinks and Viamat

### **Director of Operations - Specific Duties and Responsibilities**

As previously indicated I (Steve Fitch) will be the ISD's sole paid employee during the initial 12-month period of operations. I will perform the following duties in addition to the sales and marketing activities referenced above.

- U.S. Mint Contract Administration
- Accounting
- Anti-Money Laundering Compliance
- Client Correspondence
- Product Sourcing – Supplier Relationships
- Order Placement
- Product Receipts and Deliveries
- Order Execution
- Product Receipt / Delivery
- Create Customer Accounts in the ISD database
- Process Account Applications

### APPENDIX 3 FINANCIAL PLAN

#### OPERATING COSTS

##### Fixed Costs

Monthly fixed overhead costs during the initial 12-month period will consist of the following:

- Office Rental: \$200
- Search Engine Optimization (SEO) Website Marketing Expense: \$200
- Safety Deposit Box Rental: \$300
- Miscellaneous Marketing Expenses: \$200
- Office Supplies: \$50
- Manager Base Salary: \$5100
- Total: \$6050

##### Variable Costs - Manager Commission

In addition to the Manager's monthly base salary of \$5,100 he will be paid 10% of the quarterly E.B.I.T.

#### REVENUE SOURCES

##### U.S. Mint

There are currently 4 companies that have been awarded a contract to supply 400 oz gold bullion bars to the U.S. Mint. Only two of these companies are actively bidding. The U.S. Mint purchases approximately \$2 Billion of gold per year via this contract vehicle. It is reasonable to expect that the ISD bullion bank sub-contractor can capture at least a third of this volume amounting to approximately \$660 Million annually.

Despite the fact that the ISD is the prime contractor its role in the transaction will be limited to contract administration. It is therefore reasonable to expect that the sub-contractor will receive the bulk of the available profit and the ISD's revenue share will likely be limited to a mere 10 basis points (.001) of the total sale price. The ISD's annual revenue will therefore be approximately \$660,000. Upon approval of this business plan the ISD will immediately seek a sub-contractor and this may take up to 1.5 months. During this period there will obviously be no revenue. Since the contract expires in May of 2030 projected total revenue over the life of the contract is approximately \$11.2 Million.

**Individual High-Net-Worth Investors**

The gross margin on all non-governmental sales will be a minimum of 75 basis points. The monthly breakeven Sales Volume will therefore be approximately \$807,000 ( $\$6,050 / .0075$ ). As previously mentioned in the Executive Summary the ISD has just begun to reap the benefits of its investment in infrastructure development and marketing initiatives. During the past 8 weeks the ISD has received its first 4 orders exclusively from individual high-net worth investors. Total sales volume amounted to \$875,000. The transaction size ranged from \$500,000 to \$100,000 producing an average of \$218,750.

**Institutions**

Institutional customers will include hedge funds, foundations, municipalities, family offices, endowments, corporations, and trust funds. Market research suggests that it is reasonable to expect the average transaction size among this market segment to range between \$5 - 10 million.

**REVENUE PROJECTIONS: Q1 – Q4****U.S. Mint**

	Q 1	Q 2	Q 3	Q 4
Sub-Contractor Sales Revenue	\$82,500,000	\$165,000,000	\$165,000,000	\$165,500,000
ISD Revenue	\$82,500	\$165,000	\$165,000	\$165,000

**Non-Government Institutional Sales**

	Q 1	Q 2	Q 3	Q 4
Sales Revenue	\$6,300,000	\$15,900,000	\$21,600,000	\$27,300,000
Operating Expenses				
Cost of Goods Sold	\$6,252,750	\$15,780,750	\$21,438,000	\$27,095,250
G&A Expenses	\$18,150	\$18,150	\$18,150	\$18,150
Depreciation & Amortization	\$0	\$0	\$0	\$0
Other Expenses	\$0	\$0	\$0	\$0
Total Operating Expenses	\$6,270,900	\$15,798,900	\$21,456,150	\$27,113,400
Earnings Before Interest & Taxes	\$29,100	\$101,100	\$143,850	\$186,600