

PROPOSAL FOR THE PROVISION OF FINANCIAL SUPPORT TO BLUBBER MOTORS

BACKGROUND :

- James Smith trained as a mechanic and worked with McSuper Garage, an established main dealer for many years.
- In 1995, James set up on a small scale specializing in commercial vehicles sales and servicing.
- He operated on a sole trader basis from Unit 1, Verytrim Industrial Estate, and a unit which he acquired at that time.
- During this time, there was significant investment in the workshop
- On account of the significant number of VW vehicles that he sold, James approached MDL to operate as an official agent. MDL funded new signage and arranged limited stock finance.
- In 1999, the business was transferred to Blubber Motors Limited.
- Turnover in this period grew as follows:

o 2002	€4.76m
o 2003	3.89m
o 2004	6.95m
o 2005	7.41m
o 2006	12.06m
o 2007	13.02m

DIFFICULTIES ENCOUNTERED:

The directors readily accept that during this period of significant growth, they did not possess the expertise in areas of internal and financial controls and that there existed much inefficiency which should have been identified at an earlier stage.

In addition to the above, the company was obliged to move to larger premises owing to the block exemption requirement and also as a consequence of the centralization of dealerships to larger premises at Airside Motor Park. This added significantly to the operating cost base of the business.

The company entered into "contract hire" arrangements with customers. However, this has proved to be a serious loss making sector of business and income will only arise when the vehicles are returned at the end of the hire period - many of the vehicles coming back during 2009 and 2010.

During 2007, many of company's competitors dropped their prices. The company similarly adjusted prices and by consequence there was a serious loss of margin.

Twice in the last 5 years, the company was compelled to change its accounting system. Most recently, it changed to Auto View which was written on a non Windows platform and for which there was a lengthy learning curve. To a point, the directors were operating "in the dark" and financial information was not being properly accessed.

The recent downturn in the national economy has further exacerbated the trading difficulties of the company. The unavailability of credit coupled with the impact of the strength of Euro against Sterling has now forced the company into a recovery programme

The Workshop and Parts Sales divisions of the business continue to trade well and indeed there has been an increase in parts sales during 2008 despite the downturn in the sector.

A significant factor arises from the strength of the customers' fleet base which the company holds contracts for maintenance and servicing, including 103 vehicles from Ding Dong County Council, 58 buses from Northern Bus Company, 42 Crafter Vans from Southern Bottlers, 24 Caddy vans from MPS and some 10-20 van fleet service customers.

The contract hire sector of operations has placed a huge burden on the finances of the company. In effect, the workshop is sacrificing 10% of the Gross Margin to cover the cost of servicing vehicles rented under contract hire. The model for contract hire adopted involves selling the vehicle for a large invoice price and taking it back for a small residual. The responsibility for maintenance of the vehicle during the period of hire rests with Armston Limited. Much of this cost is recovered on the disposal of the vehicle when taken back for low residual. Much of the expected benefit from these arrangements will not accrue to the company until latter part of 2009 and during 2010.

It was decided to form a new company, VAN OPTIONS LIMITED, to handle the contract hire business separately. VAN OPTIONS will be collecting monthly maintenance charges from customers. We had a contract hire fleet of 120 vehicles on Jan 1 and this has now reduced to 103 vehicles. Unexpired contract hire arrangements will take 18 months to clear and we are constantly looking to negotiate customers out of the current arrangements. It is projected that the company will spend €150,000 on maintaining the current fleet in 2009.

RECOVERY PLAN:

The following matters have been actioned:

- o Significant cost reductions
- o Reduction in staff numbers
- o Appointment of an external financial consultant
- o Total clean up of balances on the accounting system
- o Preparation of a financial plan based on realistic and achievable assumptions (already submitted)
- o Saving bond cashed in and invested into company value €50000

The company will further require entering into negotiations with its credit providers (Lombard and National Irish Bank) to enter into manageable repayment arrangements.

FINANCIAL SUPPORT:

It is envisaged that a capital injection of €400,000 is required and will be applied as follows:

€ 125,000 to Lombard Finance
€ 100,000 to pay trade creditors
€ 45,000 to pay tax arrears
€ 130,000 to be retained for working capital.

The term of repayment envisaged is over 5 years with a moratorium for 1 year and then an annual capital commitment of €100,000 for each of the following 4 years.

James Smith,
Director.