

Case Study

Machine decision

● Brilliant Bolts faces investment conundrum

"We have to make a decision soon. We either need to buy the machines now or forever hold our peace." Gerald Madise, the co-owner of Brilliant Bolts, says to his financial director and partner, Jan Evans.

"I know, but it's a huge amount of money," Evans replies. "The decision to invest R5 million is not something we must make today - it can make or break the business."

Madise turns his attention back to Evans' spreadsheet. "If the construction market in Gauteng remains at current levels we should be able to make the investments while also allowing the business to grow," he says.

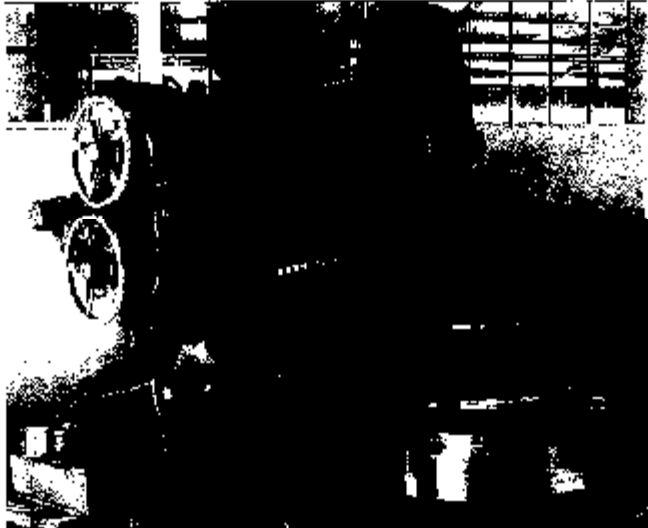
Evans frowns before replying: "I know what the figures say Gerald, but the boom will not last forever and we will be paying for these machines for the next four years. We will have to get special asset finance for the machines as we will not be able to fund it from our existing cash resources, as we are already stretched as it is."

BRILLIANT BOLTS

Madise joined Brilliant Bolts in 2000 as part of an empowerment transaction. The business manufactures large bolts mainly used in the construction of commercial and industrial buildings.

"Because of the business' new empowerment status, the partners quickly expanded their market reach and became suppliers to some of the biggest and most prominent construction companies in SA.

Soon, however, Brilliant Bolts realised their manufacturing capacity and the partners started thinking about buying new machines. The new machinery is expected to not only



The decision to invest or not can either make or break a business.

increase the volumes being manufactured but to also expand the range of goods the business can offer.

ON A TIGHT

"The construction industry, especially commercial projects, has done well over the past three years but I am worried that it is about to slide into recession," Evans continues. "A downturn may leave us with our hands in the cookie jar."

Evans speaks tentatively when he first sales levels. "Given the uncertain future, what else and their associated risks. In such a growth, we need to be on the conservative side and use the cash to secure the processed income and spend the surplus to give us some extra liquidity should it ever be needed."

The business has received a report that is analysed as follows: "The nation's business environment is expected to manage a slower business, the growth of the business is expected to be slow, possibly less than the market rate which will affect the rate of volume of production, growth and hence the likelihood of sales, loss and profits."

A due diligence strategy will focus on identifying the risks and possible future impacts of various ranges of macro-conditions. It will also give the investment a risk rating.

The key is to identify different risks in the field of investment. Factors include the number of units, the quality of the business, the ability to pay for

the machine. "Yes, but this will not only expand our asset base, it will also take the business to a new level and make us a leading player in Gauteng. We can not buy assets conservatively and we should be able to survive normal cyclical trends in the industry. All research indicates that the commercial construction sector in the province will remain strong until after 2011."

How should Brilliant Bolts approach their capital investment decision?

Evans explains the risks of Madise's plan. "By taking the business through the capital investment market, the financing will be undertaken at a cost that is significantly higher than the cost of debt. It is also a high-risk system, so the risks are a business will not be able to fund the business plan and strategic plan for the next five years."

The decision between more assets and managing the business is a decision that is being made to give the business the best possible chance of success. It is not a decision that is made in the future.

The decision to invest in the business

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RESPONSE:



Francois Meyer

Subcontracting has its advantages

Before making an investment decision, any partners should consider the following: **The market**

Though the business decision and investment considered is not a new one, that has not meant being successful and profitable is as simple as adding machines, hydraulic press, heat-treatment plant and induction heater.

Type of equipment

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The equipment also has alternative uses in the engineering field.

If the market for industrial bolts shrinks due to the fact that the new capacity becomes available, the bolts will be sold in a profitable market. The bolts will be sold in a profitable market. The bolts will be sold in a profitable market.

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RESPONSE:



Guy Daines

Understand different risks

The partners of Brilliant Bolts will have to consider the following points: The reliability of research and their common areas of focus on both levels of the business. In July 2007, the market for the transfer of what made the business successful in the past four years.

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