

The Deltaport Limited

DOCK-IN-A-BAY

INVESTMENT PROPOSAL

June, 1994

SUMMARY

Deltaport Limited is a research and development company based at Memorial University of - Newfoundland, St. John's, specializing in the design of novel floating structures. The company's latest project is the manufacture and marketing of two prefabricated flotation kits to be sold under the DOCK-IN-A-BOX trademark - a boat dock kit and a swimming raft kit. Start up money is required to launch the products' entry into the retail market. This document is in support of the financing for that commercialization. The plan calls for the sale of 25% interest in a new company to an investor for \$150,000. Discounting future earnings for the next five years (1994-95 to 1998-99) at a discount rate of 20% would place the value of the company at 54.8 million, making the \$150,000 investment worth \$1.2 million.

BUSINESS OPPORTUNITY

After years of research into the design of floating marine structures, Deltaport Limited has decided to concentrate on the production of prefabricated floating boat dock and swimming raft kits and the adoption of a "Build It Yourself" packaged sales approach. Sold under the name "DOCK-IN-A-BOX", both products have a wide range of applications for recreational use in both Canada and the United States. Given the nature of DOCK-IN-A-BOX, the potential exists to market this product on a large scale using mass merchandising techniques.

The uniqueness of DOCK-IN-A-BOX can be attributed primarily to the way the product is packaged and designed. Unlike other floating products on the market, the products are sold in the form of a do-it-yourself kit that can be purchased directly off the shelf. The products are economically priced, highly stable, structurally light, easy to assemble and dismantle, and durable. Each kit is sold with four buoyancy cells and a box that includes detailed assembly instructions, hardware, and anchor bags. The swimming raft box also includes an aluminum ladder and related hardware. All the materials are included except lumber.

The DOCK-IN-A-BOX concept is based on the marketing approach of the Swing-N-Slide line of build-it-yourself children's outdoor playground equipment developed in Wisconsin, USA, 1980. This marketing approach involves dealers who sell large outdoor equipment in a relatively small box with assembly instructions and a small amount of hardware. The dealer supplies the required lumber as well as other needed hardware from their own inventory. This popular approach had total sales, in 1992 only, of about \$35 million in Canada and the United States.

The boat dock kit provides sufficient material to construct two 4' x 12' modules; several configurations are recommended, including the T-shaped, L-shaped, 8' x 12' rectangular, and end-to-end designs. The swimming raft kit provides materials to construct one 10' x 10' raft. Remembering that these designs are only recommended, the consumer is open to adapt a design to suit personal size, buoyancy, and climatic requirements. This high degree of versatility is due to the ease with which DOCK-IN-A-BOX buoyancy cells can be added to the structure.

These products are unique in that the buoyancy cells are designed to be incorporated into the structure rather than adding the cell afterwards as other floating systems do. This eliminates much of the lumber involved in trying to brace the buoyancy cell in place and frees the consumer to adapt the design to individual needs without having to worry about manipulating already complicated procedures. There are no elaborate angles, braces, or contraptions with which to contend - just nuts, bolts & washers. Economizing on the amount of lumber required reduces the overall cost of the dock to the consumer.

The buoyancy cells have been designed with a trapezoidal cross section to provide a safer response to live loading. They offer 650 lb (295 kg) of buoyant, capacity per cell. The end result is a very stable and dependable product. Each cell is rotationally moulded to a thickness of 1/8" using UV light inhibiting high density polyethylene plastic and completely filled, with polyurethane foam. If punctured the cells will not sink. This polyurethane foam forms a very dense, closed cell matrix which will not absorb water or let water permeate through its core. When the foam cures it becomes hard, lending strength and rigidity to the polyethylene casing. Polyethylene, being a very inert material, is not chemically reactive with oil, gasoline, salt water, or any of the common chemicals found around the home. In addition, it is not affected by water temperature, will not conduct electricity and is not susceptible to galvanic corrosion. Polystyrene billets, on the other hand, dissolve in gasoline. can disintegrate over time and are prone to damage by animals seeking a place to nest. In essence, DOCK-IN-A-BOX buoyancy cells are very durable and will provide the consumer with years of service.

The durability of the flotation cells has been proven through five years of extensive testing on Long Pond, St. John's, where the cells have experienced a wide range of weather conditions including gale force winds, hot summer sunshine, and meter thick ice.

Overall, each DOCK-IN-A-BOX kit is an excellent do-it-yourself package complete with everything necessary, except lumber, to build a floating dock or a swimming raft. Just add wood and water, *lots of water*.

DOCK-IN-A-BOX'S MARKET ADVANTAGES

EASE OF ASSEMBLY Existing dock systems are difficult to assemble and complex in design. Interlocking polyethylene modules, snap-together aluminum tubing bolted to pre-cut wooden decking, foam filled rubber tires cribbed in place, flotation modules containing soft drink bottles strapped or lay bolted to a deck frame are the norm. DOCK-IN-ABOX is designed to be assembled by one person within only a few hours without difficulty using only a hammer, drill and wrench.

EASE OF DISASSEMBLY One of the best features of the DOCK-IN-A-BOX is its ability to be disassembled. Current systems and build-it-yourself docks are difficult, if not impossible, to remove from the water without heavy equipment. There is a definite need for a dock that could be disassembled and removed by one or two people quickly and easily. Both DOCK-IN-A-BOX products are designed so that the top deck can be unbolted from the buoyancy cells in a matter of minutes. The deck can then be lifted onto the shore and the cells can easily be lifted out of the water.

STRUCTURAL LIGHTNESS The fact that the buoyancy cells are about 41 pounds filled makes for a light structure but does not compromise the DOCK-IN-A-BOX'S structural strength. The completed dock or swimming raft can be lifted into the water by two people without difficulty.

MATERIALS USED The buoyancy cells are made of high density polyethylene filled with polyurethane. The cells will not sink if punctured, are not susceptible to damage from oil, gasoline and salt, and will prevent animal infestation.

RETAIL PRICE The price to the dealer of the boat dock kit is \$620.67 and \$689.64 for the swimming raft kit. With a dealer margin of 45% the retail price is expected to be \$899.97 and \$999.98 respectively. The cost of lumber would be approximately \$250 so the price per square foot to the consumer would be \$11.98 for the boat dock kit and \$12.50 for the swimming raft. These prices are below competitors prices.

INDUSTRY BACKGROUND

Although numerous companies manufacture and sell floating dock systems throughout Canada, Deltaport is confident in its ability to compete with DOCK-IN-A-BOX because of the products' unique design characteristics and low price relative to the competition:

Deltaport Limited Competitor Listing

Company	Particulars
Topper Floating Structures Ltd. Surrey, B.C.	The Topper Float is a tough, inspected, recycled automobile tire casing completely filled with expanded polystyrene. Pre-fabricated kits cost over \$15.sq.ft.
Float DOCKS Ltd. Ajax, Ont.	They sell the Topper Float.
Jetfloat Ltd. Toronto, Ont.	The Jetfloat consists of unfilled, individual high density polyethylene modules that interlock to form a sturdy floating structure of great stability. The modules are net foamed filled. The cost is about \$21SQ. ft.
Blue Water Systems New Westminster, BC	Blue Water builds a modular aluminum system. Components of snap-together aluminum tubing are bolted to pre-cut wooden decking and foam-filled polyethylene floats. The cost is approximately \$14,sg.ft. depending on complexity and options.
Kingfisher Docks and Boats Inc. Port Moody, BC	Kingfisher specializes in designing and building docks and ramps for impossible locations be. sleep coastal properties) using such devices as counterbalances and powered lifts.
Dock Blocks Ltd. Gibsons Harding. B.C.	The Dock Blocks system is a modular approach that utilizes sturdy polyethylene blocks (19.5' x 19,5'). These blocks interlock to form a one piece, non-slip float without need for frame or decking. <i>The</i> blocks sell for \$46, each, about \$25.sq.ft.
Shoreline Systems Calgary, Alberta	It sells several different dock systems, including a foam fillet style (\$12.sq.ft.), foam filled tires (\$13.sq.ft), tank floats (\$12.sq.ft) and the interlocking polyethylene Jetfloat (\$21.sq.ft). Prices will vary depending on size and fittings.
Enviro Float Canada	Enviro Float flotation modules include a unique secondary system of sealed, two litre soft drink bottles. Each float contains approximately 80 soft drink bottles, with a buoyancy of 625 pounds. The outside module is fabricated of recycled polyethylene. The float (\$149. for large and \$89 for small) can be strapped or lay bolted to a frame.

Many people have experimented with constructing their own docks and swimming rafts. In fact, from market research conducted at the Toronto Sportsmen's Show and the B.C. Great Outdoors Show it was discovered that this was a wide spread practice. These "handyman specials" might not be fancy but they are adequate. The cost, however, is only slightly cheaper because people have to use extra wood or other materials to brace the buoyancy cells into place. Buoyancy is obtained a

number of ways, including: logs, tires, Styrofoam billets, and other buoyancy cells. Of course, mainly because of their poor design many of these products are prone to problems including:

- animal infestation. Animals, muskrats in particular, nest in the styrofoam destroying the billet in the process;
- the inability to remove the structure from the water for the winter. As a result, the docks sustain ice damage and must undergo constant repair each spring; and
- a short life span. Because they are not anode to engine ring specifications and are not constructed by professionals, the docks tend to not last and are most often not aesthetically pleasing to the eye.

THE MARKET

The primary market for DOCK-IN-A-BOX is comprised of owners of summer cottages situated on fresh water lakes and coastal areas of Canada. The secondary market is the commercial operations such as lodges, children camps, etc with access to water. These potential groups of customers may buy one or more prefabricated floating dock kits and swimming rafts depending on their differing needs.

The size of the Canadian market for recreational docks is dependent upon the number of households that own vacation homes and the number of households that own a boat. Extrapolating Statistics Canada's figures from 1992, the total number of households with vacation homes in Canada for 1994 is about 642,000. A large proportion of these vacation homes are concentrated in Central Canada with Quebec and Ontario accounting for a combined 67% of the total. Statistics gathered with respect to boat ownership reveal that nearly 15% of all Canadian households own a boat but it can be assumed that this percentage would be greater for households owning a vacation home - about 25%. Therefore, the total 1994 market potential for recreational docks within the cottage market is estimated at 160,500 units.

Actual sales potential for DOCK-IN-A-BOX is contingent upon two main factors. the rate of growth in boat sales and the life span of the average dock. Our market research has found that people are having to replace their existing dock on a regular basis because the dock had sustained damage or environmental regulations forced them into making changes (for example, in many provinces pressure treated wood cannot be immersed in water). Assuming that the average dock needs to be replaced every five years, the initial market potential within the cottage segment is estimated to be 34,000 units for 1994 and growing to 38,109 by 1999. Sales projections based on conservative market shares for 1994 are estimated at 287 units and 5,145 in 1999. Coupled with sales to the U.S. beginning in 1996-97, total sales in units would reach 21,436 by 1999. Of course, the DOCK-IN-A-BOX products have a life span of 10 - 15 years so as people replace their docks with the DOCK-IN-A-BOX products new dock construction will run on a longer cycle.

Initially, the market for DOCK-IN-A-BOX will be seasonal in nature. It is anticipated that the majority of product sales will be realized during the spring and summer months. To offset this seasonality trend, the new company will take advantage of the "off-season" to work towards the

design of new and complimentary product lines and to rebuild its inventory of the DOCK-IN-A-BOX product. Once the company expands into the Southern U.S. demand for the DOCK-IN-A-BOX products should become more uniform throughout the year.

The market for the swimming raft is estimated at 25% of the boat dock market.

Deltaport Limited
Total Market Potential

Line item:	Year				
	1994-95	1995-96	1996-97	1997-98	1998-99
Vacation homes in Canada	642,000	661,000	680,000	700,000	721,000
Canadian households with boats	15%	15%	15%	15%	15%
Canadian vacation homes with boats	25%	25%	25%	25%	25%
Vacation homes with boats	160,500	165,250	170,000	175,000	180,250
New structures	2,850	2,913	2,977	3,042	3,109
Replacement structures	31,150	32,100	33,050	34,000	35,000
Sales potential for docks	34,000	35,013	36,027	37,042	38,109
Sales potential for floating docks (75%)	25,500	26,260	27,020	27,782	28,582
Sales potential for swimming rafts (25%)	6,375	6,565	6,755	6,945	7,145
Total sales potential – CANADA	31,875	32,824	33,775	34,727	35,727
Projected market share – CANADA	1.0%	5.0%	7.5%	12.0%	15.0%
Total sales in units – CANADA	319	1,641	2,533	4,167	5,359
Total sales potential – U.S. (10x)	318,750	328,244	337,751	347,271	357,274
Projected market share – U.S.	0%	0%	1.5%	4.0%	6.0%
Total sales in units – U.S.	0	0	5,066	13,891	21,436
Total sales potential in units	319	1,641	7,599	18,058	26,796

The company will initially concentrate on introducing DOCK-IN-A-BOX to the Canadian marketplace. To this end, the company will attempt to set up a distribution network through major building supply chains servicing eastern, central and western regions of the county. This strategy will enable the company to penetrate the Canadian market in the most efficient and effective means possible. Beginning in 1996-97, the company will strive for market expansion through the introduction of DOCK-IN-A-BOX to the United States market, again selling through major building supply chains. The U.S. market is estimated to be ten times that of its Canadian counterpart.

Distribution of DOCK-IN-A-BOX through major building supply chains will provide Deltaport with several benefits. First of all, the company will have the advantage of dealing exclusively with a limited number of distributor outlets thereby reducing administrative time and associate; costs. Further, the company will be able to transport the box component of its products to central locations. Distribution of the boxes to individual stores will become the responsibility of the distributing agent. Distribution of the buoyancy cells will be handled directly by the new company and dropped shipped to the individual es. Finally, many of the building supply chains operate stores in rural and remote Canadian settings. Access to these regions will enable the company to market DOCK-IN-A-BOX to a much wider geographic region.

As the new company attempts to enter the Canadian and U.S. market for floating marine structures, attempts will also be made to grow and expand through product development. - Utilizing the same basic concept as DOCK-IN-A-BOX, the company will design and develop a series of do-it-yourself floating products for the recreational market. Potential products currently under consideration include a floating boat house.

THE INVESTMENT

In order to finance the commercialization of the DOCK-IN-A-BOX products, Deltaport is seeking outside investment of \$150,000. Investors will be offered 25 % of the common shares in a new company. Current projections show that by 1998-99 pretax profits will reach \$5,460,769.

Discounting future earnings for the next five years at a conservative rate of 20% places the value of the company in today's dollars at \$4,806,163 (pretax). An investment for 25% of the company, at the original cost of \$150,000, would be valued at \$1,201,541.

Deltaport Limited
Annual Operating and Profitability Projections

Line item:	Year				
	1994-95	1995-96	1996-97	1997-98	1998-99
Units sold	319	1,641	7,599	18,058	26,796
Average price per unit	\$655	\$655	\$655	\$655	\$655
Gross sales	\$208,831	\$1,075,254	\$4,978,784	\$11,830,858	\$17,555,226
Cost of goods sold (65%)	\$135,740	\$698,915	\$3,236,210	\$7,690,058	\$11,410,897
Gross margin	\$73,091	\$376,339	\$1,742,574	\$4,140,800	\$6,144,329
[OPERATING EXPENSES]					
Salaries and benefits	\$87,400	\$166,140	\$182,754	\$201,029	\$211,081
Office expenses	\$9,775	\$10,753	\$21,505	\$43,010	\$86,020
General expenses	\$18,600	\$20,460	\$24,552	\$29,452	\$35,355
Marketing	\$11,250	\$53,783	\$99,576	\$236,617	\$351,105
Total operating expenses	\$127,025	\$251,115	\$328,387	\$510,119	\$683,560
Profit before taxes	(\$53,934)	\$125,224	\$1,414,188	\$3,630,681	\$5,460,769
Profit as a % of sales	-25.8%	11.6%	28.4%	30.7%	31.1%

COMPANY MANAGEMENT

Deltaport Limited is a private company incorporated in the Province of Newfoundland and Labrador on April 12, 1984. Deltaport's major shareholders include founders Tom Kierans, P.Eng. and Harold Snyder, P.Eng., former professors at Memorial University of Newfoundland, and Seabright Corporation Limited, Memorial's technology commercialization company. While Deltaport's corporate objective is to conduct research into marine uses for floating structures that combine the benefits of modern space frames and multiple buoyancy cells, the company further aims to develop and market practical applications for such systems. Deltaport has received support for its work from the National Research Council (NRC), Enterprise Newfoundland and Labrador (ENL) and the Atlantic Canada Opportunities Agency (ACOA).

Deltaport's first initiative was the design of a large floating offshore sea and air supply and service base. Upon completion, this base would service expanding oil and gas discoveries on the Northern Grand Banks from an offshore location selected to reduce critical travel time between drill platforms and coastal service bases. The proposed sea-air base would be designed to withstand mid-ocean environments and possess all the essential facilities of land bases, including an enclosed harbour and air Diane landing strip. Perceived benefits of this base include improved sea and air surveillance of the Grand Banks and improved safety and security for transoceanic sea and air traffic along Canada's extensive coastline.

In 1988, Deltaport changed its R & D focus from large floating structures to small systems for more general use. Over time, the company began to experiment with a variety of design structures and sizes. After years of research, Deltaport developed the innovative and unique DOCK-IN-A-BOX products.

The management team of Deltaport Limited is comprised of Mr. Tom Kierans and Seabright Corporation. Kierans has been involved primarily in the design of floating structures but both Kierans and Seabright Corporation have assisted in bringing the product to the commercialization stage. Seabright has been involved in guiding Deltaport's marketing efforts, assisting in obtaining funding and providing administrative support.

Once Deltaport enters the market with DOCK-IN-A-BOX, an immediate need for additional personnel will arise. During 1994, it is anticipated that Deltaport will hire a number of individuals to assist in the operating the company and marketing Deltaport products on an ongoing basis. More specifically, a marketing manager, production personnel, and office support staff will be hired.

In the immediate term, Deltaport will continue in its general management role overseeing the day-to-day operation of the new company, providing administrative support and continuing an active role in the design and conception of new products.