



Project Horse

BlueMount Capital is mandated to assist Project Horse (“the Group”) with raising a debt facility and / or equity investment into its wholly owned subsidiary (“OpCo”) of up to \$5,500,000 to finance its further development of its business in breeding, training and sales of horses in Australia and refinance another wholly owned subsidiary of the Group’s (“Asset Company”) existing mortgage.

The Group is a thoroughbred broodmare stud specializing in professional equine services situated in Victoria, Australia. It combines information and communication technologies and premium facilities with expert thoroughbred knowledge to provide the highest standard of care for horses all year round.

Group Overview	
Founded	February 2019
Team Size	40
Industry Sector	Equine; the breeding, training and sale of horses in Australia
Status	Expansion
Requirement	A debt facility and / or equity investment of up to \$5.5m
Pre-money Valuation	\$16.9m
Use of Funds	<ul style="list-style-type: none"> Funding the expansion of the operations; and Refinancing the existing mortgage.
Exit	IPO in 2 to 3 years

Group and Investment Highlights

- ✓ The Group is one of the official bloodstock agents in the Hong Kong Jockey Club, a world-class racing club;
- ✓ The Group currently owns and runs a farm in Victoria. It also runs farms in the Hunter Valley and Toowoomba and has stables at the Gold Coast Turf Club;
- ✓ Apart from the sales of horses, the Group is currently deriving revenue from horse prizes, short and long term spelling and broodmare agistment;
- ✓ The Group estimates that it will generate income from sales of horses of \$7m during the auctions between January 2023 to April 2023;
- ✓ In FY23 and FY24, the Group plans to build a stallion barn at its Victorian farm to generate stallion service fees for the Group;
- ✓ This is an opportunity for a funder / investor to partner up with the Group; and
- ✓ Based on current and estimated profits, the Group is looking at various liquidity options such as listing on suitable Australian or international exchanges via an IPO (Initial Public Offering) in FY24 or FY25.

Group Consolidated Financials		
Year ending 30 June	Revenue	Profits / (Loss) before Tax
2021 (A)	\$9.05m	\$1.52m
2022 (A)	\$13.87m	\$1.77m
2023 (F) #	\$20.41m	\$5.33m

with funds in

Ask

The Group is looking for a debt facility and / or equity of up to \$5,500,000. The funds are planned to be used for expanding the Group’s business operations and refinancing its existing mortgage (as of 30th June 2022, the mortgage loan amount is \$544,000).

The closing date of this offer is 30th September 2022.

**INVESTMENT OPPORTUNITY
FOR s708 QUALIFIED INVESTORS ONLY**

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About the Group

The Group prides itself on its exceptional sales preparation of weanlings, yearlings and mares for all major sales across Australia. It has developed a reputation for presenting polished drafts that go on to successfully perform both on the racetrack and in the breeding arena. The Group is made up of the following companies / business / operations:

- An investment holding company and 3 wholly owned subsidiary.
 - OpCo is the main operating entity and mainly derives income from horse breeding and training, sales of horses and horse prizes. This entity currently owns over 150 horses, this number is expected to increase to 180 in FY23. OpCo also runs farms in the Hunter Valley and Toowoomba.
 - The asset entity owns a farm located in Victoria.
 - All employees of the Group are hired by a service entity. It charges a service fee to the Group's other entities for employment services.

Products and Services

The Group caters for both short and long term spelling and broodmare agistment. The Group attends all major Australian yearling sales, broodmare sales and 'Ready2Race' sales throughout the season.

OpCo also provides the following services to its customers:

- **Veterinary:** The Group's vets are on call 24 hours a day. These vets are highly experienced and have worked many stud seasons.
- **Farrier:** The Group's blacksmith is an integral part of the team and his knowledge and expertise helps the Group raise sound, correct legged horses that importantly go on to win races.

The Customers

The Group's major customers are horse owners in Hong Kong (i.e. the Hong Kong Jockey Club members) and Australia.

The Hong Kong Jockey Club ("the Club") is a world-class racing club ([Who We Are - About HKJC - The Hong Kong Jockey Club](#)). Founded in 1884 as a membership club to promote racing, the Club currently has a subscription base of about 9,100 Racing Members and 14,900 Full Members.

In view of the high threshold of becoming Hong Kong Jockey Club members, and high entrance and annual fees, the Club's horse owners are high-net-worth individuals, ultra-high-net-worth individuals, wealthy families and large corporates in Hong Kong. We understand that there has been growing demand for high quality horses in Hong Kong.

The Market

According to the IBISWorld report published in October 2021¹, the industry is projected to recover from the COVID-19 pandemic and expand over the next five years. "Australia's reputation for producing high-quality horses for racing will continue to support strong demand from domestic and overseas customers. As a result, exports are anticipated to increase over the next five years. Rising overseas and domestic demand is likely to boost industry-wide profit margins over the period. In addition, an expected fall in the domestic price of wheat feed is likely to boost the rise in industry profitability. Industry revenue is forecast to increase at an annualised 2.6% over the five years through 2026-27, to total \$1.3 billion.

Key overseas markets for Australian horses and services include Hong Kong and New Zealand. Players, particularly thoroughbred farmers, have benefited from rising overseas demand for high-quality Australian horses and services. The weak value of the Australian dollar over the period has also kept Australian horses comparatively cheap in overseas markets. In particular, the Hong Kong Dollar is pegged to the US Dollar and the price of the horses from Australia for the Hong Kong customers is lower.

High-quality thoroughbred horse farms are anticipated to expand over the period, in line with strong demand for high-quality thoroughbred horses and services."

Valuation

Since all horse breeders are privately owned, the valuation comparables are not publicly available. For estimating the Group's valuation, we used the balance sheet as of 30th June 2022 (please refer to the Financial Summary in this document for details).

Most of the Group's assets are horses (i.e. biological assets of \$20.3m as of 30th June 2022). This amount represents the insurance value of the horses. According to the Group, the insurance company has adopted a prudent approach in assessing the value of the horses, and the market value should be higher.

Regarding liabilities, the highest amount is the related party loan that could potentially be converted to equity, if required.

The Enterprise Value of the Group is estimated to be \$16.9m.

Use of Funds and the Ask

The Group is looking for a debt facility and / or equity of up to \$5,500,000 for:

- buying of new horses for at least \$1m;
- financing working capital of \$4m for the expansion; and
- refinancing existing mortgage of \$544,000.

The Group is open to discussing the possible funding / investment structure with interested funders / investors.

¹ IBISWorld report "Horse Farming in Australia"

Exit Strategy

The Group is contemplating conducting an IPO in 2 to 3 years' time and is open to discuss various options with funders / investors.



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Project Horse | Teaser | 1st August 2022

Financial Summary

	P&L (\$'000)			
	Notes	FY21 (A)	FY22 (A)	FY23 (F)
Group Revenue		9,046.1	13,870.4	20,410.8
Horse prize and other revenue		123.3	191.9	383.8
Breeding and stallion fees	1	4,090.1	9,492.3	11,865.4
Fair value increase on biological assets		1,791.0	1,322.0	1,000.0
Sales		2,781.4	2,702.6	7,000.0
Other revenue	2	260.3	161.6	161.6
Cost of Goods Sold		953.7	1,754.2	4,550.0
Group Gross Profit		8,092.4	12,116.2	15,860.8
Group Expenses		6,575.4	10,344.6	10,528.5
Accounting Fees		30.0	63.1	66.9
Horse Expenses		2,392.8	4,177.3	5,221.6
Service Fees		2,692.7	1,985.6	0.0
Travel		104.6	113.4	120.2
Director's Fees		0.0	0.0	0.0
Payroll		719.1	2,322.1	2,461.4
Depreciation		101.2	101.0	101.0
Loss from Disposal of property, plant and equipment		0.0	0.0	0.0
Fencing Expenses		0.0	0.0	0.0
Insurance and workcover		44.0	147.5	156.4
Other Expenses	3	405.7	1,330.9	1,465.6
Interest Expense		85.3	103.7	935.4
Group EBT		1,517.0	1,771.6	5,332.3
Income Tax Expense		0.0	110.8	1,386.4
Group Net Profit		1,517.0	1,660.8	3,945.9

Notes:

1. The Group advises that the horse breeding and stallion fees recognized as income in the Group's profit and loss account is received by a Hong Kong partnership as most of the customers are located in Hong Kong. The Hong Kong partnership is a partnership between the Group's founder and his business partner.
2. Other revenue includes horse leasing income, training income, veterinary income, etc.
3. Other expenses include fees for sale of horses, utilities, motor vehicle expenses, rent, superannuation, etc.

Balance Sheet (\$'000)				
	Notes	FY21 (A)	FY22 (A)	FY23 (F)
Assets				
Current Assets				
Cash and cash equivalents		386.5	15.0	7,061.8
Trade and other receivables		39.1	2.7	7,049.5
Other		23.7	12.3	12.3
		323.7	0.0	0.0
Non Current Assets				
Property, plant and equipment		18,085.8	21,813.1	23,712.2
Biological assets		1,639.3	1,538.3	1,437.3
		16,446.5	20,274.8	22,274.9
Total Assets				
		18,472.3	21,828.1	30,774.0
Liabilities				
Current Liabilities				
Trade and other payables		5,432.2	2,268.4	1,724.1
Income tax		5,372.0	2,268.4	1,724.1
		60.2	0.0	0.0
Non-Current Liabilities				
Related party loans		11,864.9	16,723.6	8,268.0
New unrelated party loan	1	11,864.9	14,062.8	62.8
Non-related party loans		0.0	0.0	5,544.4
	2	0.0	2,660.8	2,660.8
Total Liabilities				
		17,297.1	18,992.0	9,992.1
Total Net assets/(liabilities)				
		1,175.2	2,836.1	20,781.9
Total Equity				
Issued capital	1	1,175.2	2,836.1	20,781.9
Retained profits		0.1	0.1	14,000.1
		1,175.1	2,836.0	6,781.8

Notes:

1. The Hong Kong partnership provides a loan to the Group in Australia. This loan is non-interest bearing and will be converted to shares in FY23.
2. The unrelated party loan in FY22 is due to an auctioneer, and the interest expense is minimal. The auctioneer has provided credit terms to the Group due to the Group's track record of transacting with the auctioneer.

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