

Suretech Solutions Ltd

Case Study

Suretech Solutions is a Dublin based IT Services Co providing outsourced IT services to a range of bluechip private and public sector organisations in Ireland (80%) and the UK (20%). Most of the services are delivered through leading IT providers including Microsoft, IBM, HP and Fujitsu. The company's business model revolves around delivering services on behalf of these leading providers thus avoiding the need to market and sell the services directly which would be difficult for a small company especially when competing with global brands (*'No one ever got fired for hiring IBM'*)

In most cases the Suretech Solutions staff perform as if they are employees of the lead provider which ensures a seamless service to the end user.

The business is divided into three main divisions:

- Projects and Consultancy
 - Infrastructure consultancy and services
 - Project Management
 - Testing
- Managed Services
 - Staffing and managing service and support desks
- Flexible Resourcing
 - Provision of contract staff direct to client companies

The company has 240 permanent employees and approximately 300 contract staff. Permanent employees are paid one month in arrears and contract staff are paid fortnightly. A number of the fulltime employees work within the client companies on tendering for contracts. It is only if the contract is won that Suretech Solutions can recover these costs.

While most of the debtors are of good credit quality receivables management has proved to be a problem. In theory client businesses should pay for services provided within 30 days but this has proven difficult to implement. One of the problems is that invoices cannot be issued until the appropriate purchase order is in place and this regularly runs into administrative problems. This is reflected in the large amount of 'Accrued Income' on the Balance Sheet.

The Co has an overdraft facility of €300k and has term debt of €2.8m. As the business expanded most of the cash flow was absorbed in working capital and there was no free cash flow to make any repayments on the term debt. The bank is now pressurising the Co to refinance either through acquiring an equity partner or an alternative bank.

While these discussions were going on with the bank one of the client companies, with significant input from a number of Suretech Solutions staff, won a major contract with a UK bank. They have asked Suretech Solutions to provide 90 staff, across all the major disciplines, for this contract. The contract would be for three years and Suretech Solutions estimate that it would generate revenue of €7.2m per annum for them at a Gross Margin of 19%. The contract requires all billing to be in sterling.

Issues:

1. Is the current capital structure of Suretech Solutions sustainable
2. Are the margins being generated sufficient to sustain the growth of the business and deliver reasonable returns
3. How can they deal with the pressure from the bank to refinance the term debt
4. What are the implications of the receivables management problems they are experiencing and how can they be resolved
5. Should they take on the new contract in the UK
 - a. If they do how much additional finance will they need
 - b. How can they raise the necessary finance
 - c. How can they manage the currency risk

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Income Statements for years ended 31/12

€000's

Year	<u>2011</u>	<u>2010</u>
Sales	25,600	21,638
less		
Cost of Sales (a)	20,081	16,988
Gross Profit	5,519	4,650
S G & A Expenses (b)	4,969	4,235
Operating Profit	550	415
Interest Charges	128	100
Profit before Tax	423	316
Taxation	11	13
Profit after Tax	412	303

(a)		
Cost of Sales:		
Permanent Staff	7,291	6,182
Contract Staff	12,278	10,373
Chargeable Expenses	512	433
Total	20,081	16,988
(b)		
S, G & A Expenses		
Employee Costs	3,453	2,919
Travel & subsistence	451	381
Depreciation	128	121
Admin Expenses	937	814
Total	4,969	4,235

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Balance Sheets at 31/12

€000's

Year	<u>2011</u>	<u>2010</u>
Fixed Assets		
<i><u>Tangible</u></i>		
Equipment	<u>381</u> 381	<u>406</u> 406
Current Assets		
Cash	0	109
Trade Receivables	4,172	3,547
Accrued Income	2,464	2,156
Other Receivables	<u>636</u> 7,272	<u>674</u> 6,486
Total Assets	7,654	6,892
Current Liabilities		
Overdraft	276	351
Trade Creditors	153	128
Other Creditors		
Provisions & Accruals	1,679	1,427
Taxation	<u>917</u> 3,025	<u>539</u> 2,445
Term Liabilities		
Bank Loans	2,800	2,600
Shareholder Loans	100	150
Provisions	<u>0</u> 2,900	<u>379</u> 3,129
Shareholders' Funds		
Share Capital	50	50
Retained Earnings	1,679	1,268
Minority Interests	1,729	1,318
	<u>7,654</u>	<u>6,892</u>
C/E	4,629	4,447