

Project Title:
Innovation Fund Application

Full Business Case (FBC)

Extension to Existing Premises

To become an Innovative Centre of Excellence for
manufacturing precision machined components for
Aerospace, Nuclear and Defence

Williams & Co (Southampton) Ltd



Application Information

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1 Executive Summary

Proposal

Williams & Co (Southampton) Limited (the company) are seeking a £348,000 grant from Solent LEP as matched funding to a £550,000.00 bank loan from Lloyds Bank and £100,000 from trading profits.

The company will use the combined funds to:

- Create a state-of-the-art, innovative “hub” for the aerospace and advanced engineering sectors
- Expand our current workshop by 235%;
- Expand office space by 700%;
- Recruit and develop new staff;
- Win new business internationally and in the UK;
- Significantly increase work with existing customers.

Sector Overview

The UK’s Aerospace, Defence, Security and Space (ADS) industries make a significant and valuable contribution to economic prosperity and national security.

ADS 2016 Industry Facts and Figures guide shows the extent to which companies in the Aerospace sector serve as the industrial backbone of the UK – delivering the well-paid jobs and high-tech exports we need to secure a prosperous future.

In 2015, the UK Aerospace, Defence, Security and Space sectors’ contribution to the UK was:



The UK continues to play a significant role in the fast growing global Aerospace and space industries. With broadcasting the dominant sub-sector, other applications, including space transportation and satellite navigation, are also contributing to the overall growth of the sector.

Williams & Co. (Southampton) Ltd.

Founded in 1960, Williams & Co. (Southampton) Ltd. has been manufacturing precision machined components, including gears, from its facility in Southampton, supplying predominantly the Aerospace market, together with Nuclear, Formula 1, Marine, Medical and other commercial markets.

We have 5 axis CNC turn/milling machining centres, 4 axis CNC milling, gear cutting, grinding, honing and lapping facilities.

Types of gears manufactured include: splines and serrations (internal and external), spur (internal and external), helical, worms, worm wheels and sprockets.

Minor assembly of components is also undertaken.

All of our processes are accredited to AS9100, ISO9001. We also achieved SC21 Bronze award and are accredited to ISO14001 environmental standard.

Our extensive experience enables us to provide a range of solutions to meet customer requirements. We invest in state of the art machinery and equipment, which is consistent with the company's ethos of continual improvement.

We pride ourselves in delivering high quality, cost effective products and services tailored to meet customers' needs. Our quality control ensures product is right first time and delivered on-time, ensuring our customers can confidently plan their business activity. Our customers can rely on us.

All of our customers have a dedicated product manager to focus on all aspects of customer service and delivery. This enables us to deliver our exceptional key performance indicators ("KPI's") providing our customers with a high level of confidence when setting their project objectives.

We monitor our supply chain for quality, on time delivery and value, to ensure we meet the demands of our customers.

Company Vision, Strategy and Core Values

One of our core values is to seek continual improvement in everything we undertake and this is demonstrated by our focused Vision and Strategy.

The management team is ambitious and strongly believes the company has the ability to achieve significant growth over the next five years and become a larger, higher profile supplier to the Aerospace and other target markets. The targeted growth will predominantly depend on:

- Significantly expanding the current work shop, turning it into a Centre of Excellence for manufacturing precision machined components. The company wants to demonstrate the "wow factor" when existing and prospect customers visit their work shop and the management team believe they can significantly increase the level of work it secures from existing and prospect customers, as a result of the project being completed. Existing customers are encouraging the company to expand the current work shop as they have indicated they can place more work with the company. Prospect customers are very impressed with the high quality of product and service but the size and lay out of the current work shop provide limitations in what level of work they will place with the company.
- Developing and adding to our team of highly skilled operatives, resulting in Williams being a centre of excellence for manufacturing precision machined components.

- Maintaining Quality and Environmental Standards AS9100, ISO 9001, SC21; ISO14001 and continue to deliver quality components, which meet customer demands
- Expanding Williams Engineering's international and UK customer base through increased promotion of its specialist capability. Some new international customers have been won. However, the "new centre of excellence" will significantly enhance the message to prospect international customers. Some existing and prospect customers have actively encouraged the company to increase its work shop space to meet some of their future demands.
- Increase the level of activity with Aerospace collaboration groups which the company is part of. This approach has already opened doors to prospect customers, which in isolation the company would have struggled to open. There is significant opportunity to enhance the level of activity through the collaboration groups. The centre of excellence enables the company to make the biggest impact to and secure work from prospect customers introduced.
- Aim to establish Long Term Agreements with customers as best practice, where relevant, to provide continuity of supply and demonstrate the strength of our business relationships.

2 Strategic Case

2.1 Strategic Overview

The UK is widely seen within the European (and arguably global) Aerospace sector as offering an excellent range of services to the sector. In particular, the South of England has developed a cluster of specialist suppliers to the Aerospace sector and Williams & Co. are a good example of this.

- The Aerospace sector has established significant collaborations with existing companies in the South of England for example the Farnborough Aerospace Consortium, which Williams & Co. participate within. The company has also established relationships with other members of the Aerospace supply chain to leverage mutual business opportunities.

2.2 What problem or opportunity is the project seeking to unlock?

The company cannot meet the potential demand of existing customers as is demonstrated by the letters of support received from some key customers who are keen to see Williams & Co. expand its work shop significantly, so they can place more work with the company. Increasingly, customers are asking us for more specialized and bespoke design and manufacture of innovative product with a very short turnaround. A good example would be the work that was carried out for a Formula 1 team to replace a failed component on their Formula 1 car. This required a part to be redesigned, tested and manufactured utilizing a change in materials and delivered within a week. As a result of this work there were no further failures of that component. .

A similar situation arose for one of our Aerospace customers. Due to a re-design by their customer, the company were able to produce a small batch of components, in less than 5 days, enabling our Aerospace customer to meet the requirements of their customer. This was possible due to the state-of-the-art machinery in place, reducing lead time and costs to the customer. This type of machinery is planned to be added within the New Building.

It is this type of work that Williams & Co. is looking to unlock for the Solent region with its enhanced facility.

The company has also recently secured some exciting new international customers who are seeking long term business relations and have significant workloads to place with the company.

The much larger work shop and offices will enable the company to show case its full capability to and win other prospect international customers. The primary target region for this is Europe and the

facility will represent an opportunity to increase the Solent region's trade with the EU in the advanced Aerospace sector.

2.3 How does the project fit with the Solent LEP's Strategic Priorities?

2.3.1 Unlocking sites for housing and employment

The current facility is based in Northam in Southampton. The proposed extension of the facility will also be in this area. In addition, the project will include the refurbishment of the existing building. This will result in a high end building and innovative centre of excellence in an area that is need of significant redevelopment..

The overall size of the facility will represent at 235% increase in workshop space for Williams & Co. Given the projected increase in business expected with the establishment of this centre of excellence, Williams & Co. expects to employ 5 new staff during 2017/18. This will be a mix of experienced engineers and apprentices. For the latter, we are looking to partner with both the local Universities and HE Colleges to deliver this programme. We will also be looking to further utilise Solent Creatives (the marketing service provided by Southampton Solent under graduates) as part of our promotion campaign. This follows the successful partnership we formed with them to produce our current brochure. With all of these elements, Williams & Co. wants to work as locally as possible to support the wider regeneration agenda for the Northam area of Southampton. We anticipate that post 2019, during 2020 and 2021, as the business grows, a further 5 more staff will be added to the workforce.

2.3.2 Improving our connectivity within the Solent and beyond

With the new premises and machinery the management team plan to showcase the company as a centre of excellence for manufacturing precision machined components to the rest of the UK and internationally. This will bring business activity and jobs into the Solent region. Williams & Co. is already working closely with other local specialist firms to widen the impact that each company has. For example, we are working with an advanced electronics provider based in Fareham on a joint project for a major international aerospace customer. We are also actively pursuing similar arrangements with other businesses in the area.

Over and above local partnerships, many of our larger customers are based in Hampshire or the surrounding area. With the proposed increased capacity and capability that the new facility will provide, we expect that there will be a significant increase in the amount of business we can do. This is evidenced by a new Long Term Agreement contract we have recently signed with a major Aerospace business, based in the Solent region, which operates worldwide.

2.3.3 Stimulating and supporting innovation

As has been highlighted elsewhere, Williams & Co.'s fundamental expertise is in producing bespoke metal parts to highly stringent tolerances at very short notice. This means that everything we do is highly innovative, from the design through to testing and deployment. Due to the fact that a lot of our customers are in the advanced aerospace sector, our products need to be right first time and need to be delivered on time.

The proposed project will utilize state-of-the-art machinery. This, along with the types of parts that are produced, means that Williams & Co. needs innovative engineers to help develop the products to the right level. This in turn means that strong R & D relationships with the relevant Universities and Colleges are critical. Williams & Co. already has some of these relationships in place but we are actively looking to open the new facility to educational institutions to partner with us. This will give students "hands on" experience in an innovative engineering business in the local area.

2.3.4 Improving the skills and talent of our current and future workforce

As an extension to the above point, Williams & Co. is committed to the ongoing training and development of our existing staff. This is critical in order to maintain our ISO standards and to ensure we are best positioned to respond to customer demands. As mentioned earlier, the company is also committed to providing access to our facility for training and mentoring purposes. This is over and above our individual need for apprentices. The proposed new centre of excellence can act as an engineering hub for this type of activity.

2.3.5 Supporting business growth through access to resources and advice

As has already been outlined, Williams & Co. is committed to the overall growth of the advanced aerospace sector in the Solent area by actively partnering with other commercial organisations and the Public Sector. As a fast moving, medium sized, innovative business, we are in a very good position to support wider initiatives as well. Having this new facility will provide the company with greater scope for this type of activity, as well as giving the region a showcase environment to highlight our world class specialization.

2.3.6 Supporting our key strategic sectors

Aerospace is a key sector for the South of England. Williams & co are helping raise the profile of the South's sector capability by winning work with customers in rest of the UK and internationally. This has been given the full support of Hampshire County Council.

2.4 How will the project raise productivity in the Solent?

The work shop space will be increased by 235% and with new additional machinery and staff the company will have scope to substantially increase the level of productivity. Existing customers have already indicated they will place more work with the company when the project is complete. The company has also recently won new international customers and there is opportunity to win more work from these and other prospect international customers.

The collaboration groups the company is now part of is also providing warm introductions to target customers, which previously were difficult to access. The new Centre of Excellence will maximize the impact of winning the prospect customers.

2.5 How will the proposal demonstrate additionality?

The building of the new extended work shop will be contracted for with a local building company. The building company's supply chain is also local, including substantial steel works which is just over the road from Williams & Co. premises.

New employees will be recruited in the local region, some under the Apprenticeship Scheme.

The company predominantly uses local suppliers and when the company's business activity increases as a result of the expanded work shop, they will generate significant increases in activity for their local supply chain.

3 Economic Case

3.1 Describe the wider economic impacts of the proposal

Williams & Co.'s current facility is based in Northam. This is recognised as an area of Southampton that is in need of significant redevelopment. The extended facility that is proposed will be the first major brand new commercial premises in that area for a number of years.

It is located close to St Mary's Stadium and will compliment the high end nature of that development. It can be expected that the presence of both the stadium and Williams & Co.'s facility will help to change the perception of Northam as a place for new companies to locate.

As has been outlined elsewhere, Williams & Co. is committed to a comprehensive apprenticeship and training programme. The skills required for the new facility will be sourced locally and strong partnerships will be developed with local schools, colleges and universities. Williams & Co. also wants to investigate how our facility could be used for wider training in the aerospace sector too. Given the nature of our business, we will continue to commit to significant ongoing training of our personnel to ensure compliance to best practice and industry requirements. Again, this is something that we would be willing to open up to partners.

Finally, Williams & Co. will use our facility as a technology showcase for the Solent area. It can act as a “hub” for advanced engineering and we will actively support the Solent LEP in the promotion of the region to support additional investment both locally and internationally.

3.2 Describe the social impacts of the proposal

Williams & Co. have been located in Northam since the 1960s. This development further cements our commitment to the area. As a high tech engineering business, our presence and expansion will have a positive effect both on the perception of the area and the employment opportunities that will result from our investment.

While our development will not directly affect local housing, most of our employees are from the local area. In addition, increasing our footprint will have a knock-on effect for other local businesses in the area such as shops and restaurants.

3.3 Explain how the proposal will provide value for money, and what is the basis of your assessment?

The proposal will help protect the 21 jobs of the current work force and create 5 new jobs in the short term. However, the management team believe the company will see significant growth in 2019 to 2021 and the creation of another 5 jobs in this timeframe.

The proposal will help regenerate Northam in Southampton by creating a centre of excellence for engineering in the aerospace sector. The company plans to enhance its relationship with local colleges and universities to help develop specialist engineering skills in the local region, thus providing access to further emerging talent in the region. This will help maintain the South of England’s reputation as a hub for aerospace supply chain activity.

The project will help secure and increase the work load which the company places with the local supply chain thus protecting and enhancing business activity in the Solent region.

The company plans to promote the new centre of excellence to win new customers in Europe, following some significant international wins.

3.4 Economic Outputs

3.4.1 Number of new permanent jobs created directly

5 initially with others to come in line with projected growth.

3.4.2 Number of new permanent jobs created indirectly

Williams & Co. is committed to the local supply chain. In addition, the building itself will be constructed by local businesses, The Building contractors selected for this project are Southampton based, together with their supply chain, all materials will be supplied from the Solent LEP region.

3.4.3 Number of safeguarded jobs

21.

3.4.4 New houses enabled

Not applicable.

3.4.5 New employment/education space enabled

The total floor space will increase from 329 sqm to 956sqm. With the utilisation of existing office space to be used as a Temperature controlled Grinding & Honing facility, this gives an increase of workshop floor space of 235%

3.4.6 Skills Outputs (apprentices/learners)

At least 1 apprentice per year.

3.4.7 Total wider leveraged investment resulting from the project

As has been already covered, Williams & Co. relies on local suppliers for raw materials and complimentary technologies. The company's projected growth as a consequence of building the new facility will have a positive effect on our suppliers too. This in turn could result in further expansion and investment elsewhere in the Solent area. Having a state-of-the-art innovative operation in Northam will also show that development of the area can be achieved. As we grow, we would also expect increased interest from our partners to be located close to us. This will further help to drive the regeneration in the area.

3.4.8 Describe any other outputs to be delivered as a result of this project

In addition to the "hard" outputs explained elsewhere, there are a number of "soft" outputs that are expected to result from this development.

Williams & Co. is committed to a proactive engagement plan for the local area. There is currently a challenge with regard to how visible the aerospace specialisation in the Solent area actually is. We will be looking to help the Solent LEP to address that.

As a consequence of the above, we will also work with local schools, colleges and universities to help engage with students from an early stage. This is critical to both us as a business and for the wider Solent area. This will help with the retention of engineering skills in the Solent.

Finally, Williams & Co. will be a quoted case study for the Solent LEP. We are happy to be part of any marketing initiative that the LEP may want to pursue and will publicise the support that the programme has provided to help us grow. This will help build the profile of the region as an area that is business friendly and looking to drive investment.

4 Commercial Case

4.1 Introduction

Williams & co is a well established SME in the Solent region with an opportunity to double the size of the business in the next five years, employing significantly more staff and win new business, outside the Solent region, either in the UK or in Europe. This is the aspiration of the current management team.

However, the management team believe the new innovative work shop cannot be funded without the grant funding from the Solent LEP.

The level of growth requires the company to invest heavily in staff by recruiting up to 5 new employees in the next two years, a further 5 more 2019 to 2021, which will include a number of apprentices. The company will continue developing its existing employees to ensure they possess the ongoing innovative skills and mind-set to deliver bespoke innovative product to meet customers high end requirements.

The management team are conservative in their plans in the short term as they want to get the new work shop functioning to the high standards the company always delivers to. The management team predict the significant stepped change in growth will occur in 2019, 2020 and 2021, although they recognise this could occur sooner.

The company plans to promote the new centre of excellence to existing and prospect customers in Europe and anticipate significant growth from them.

4.2 Project Risks

Risk	Mitigating Actions	Contact Responsible	Review Date	RAG Rating for Risk
Completing the building project within timescales indicated – delays will limit the level of grant funding which can be received.	Weekly updates to Board of Directors If issues arise during build, Emergency Board meeting to be arrange to Resolve issue in the first instance	David Fripp		
Securing new work from existing and prospect customers in accordance with the financial projections.	Pipeline of targeted New Customers is in place and contact is already being made outlining New Build & increase in capacity	David Fripp		
Not being able to recruit the necessary workers to deliver projected enhanced level of work	Consultation with Schools/ Higher Education to recruit School leavers on Apprenticeship schemes	David Fripp		
Delays in new machinery arriving in projected timescales	Time line of proposed new machinery in place,	David Fripp		

5 Financial Case

Financial Proposal

Williams & Co (Southampton) Limited (the company) are seeking a £348,000 grant from Solent LEP as matched funding to a £550,000.00 bank loan from Lloyds Bank and £100,000 from trading profits.

The company will use the combined funds to:

- Create a state-of-the-art, innovative “hub” for the aerospace and advanced engineering sectors
- Expand our current workshop by 235%;
- Expand office space by 700%;
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- Win new business internationally and in the UK;
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Cash Flow Impact of Development Project and Machinery

	Jan 17 £000	Feb 17 £000	Mar 17 £000	Apr 17 £000	May 17 £000	Jun 17 £000	Jul 17 £000	Aug 17 £000	Total £000
Property Development*	167.0	236.0	207.5	76.5	42.0	100.0	-	-	829.0
New Machinery*	-	-	85.0	-	-	-	-	85.0	170.0
Total Expenditure	167.0	236.0	292.5	76.5	42.0	100.0	-	85.0	999.0
Funded BY:									
Grant Income	-	-	348.0	-	-	-	-	-	348.0
Bank Loans^	240.0	240.0	-	-	50.0	20.0	-	-	550.0
Total Funding	240.0	240.0	348.0	-	50.0	20.0	-	-	898.0
Net balance funded from company profits	(73.0)	(4.0)	(55.5)	76.5	(8.0)	80.0	-	85	101.0
Total Net Expenditure funded by the company via bank loan and own cash flow	167.0	236.0	(55.5)	76.5	42	100.0	-	85.0	651.0

* Figures are shown net of VAT therefore the actual cash flow for the month will be higher than stated. These are shown net of VAT as VAT is reclaimable therefore not a true cost to the business.

^ Repayable

The figures above identify the cash flow impact of the development project ignoring the short term impact of the VAT elements of the costs incurred. In summary, the developments costs commence in early January 2017 lasting a period of 6 months, with an additional 2 months for the inclusion of additional machinery purchases.

The initial property development costs have been quoted on a fixed price contract at a total value of £829,000 which includes contingency allowances. Timing of the payments has been provided by the builder based on commencement in early January 2017.

In addition, the new machinery costing £170,000 will be required to enable the long term sales increases as forecast.

As the development covers a period of 6 months, by the end of March 2017 only £696,000 of the total amounts will be defrayed, therefore 50% grant funding of £348,000 is forecast to be received.

To support the project the company has received an offer for bank funding totalling £550,000. This will be received in stages in line with cash flow requirements, as shown in the table above.

As a result of the above, the company is committing to provide cash flow of £101,000 from internally generated cash flow. As bank borrowings are repayable, the total commitment to the project from the company is £651,000, which excludes any interest applied on bank borrowings.

This commitment results in the grant funding of £348,000 equating to, at most, 34.8% of the total project costs.

In addition to the above position, the company is committed to additional cash outlay in respect of increases in staffing costs and on-going property and machinery running costs as a result of the increased trading expectations. These amounts will be recouped in the future as a result of increased trading activity.

Profit and Loss Review

The proposed development will significantly increase the available workspace for the company and provide additional capacity far in excess of current levels. This additional space will allow Williams & Co Limited to expand its service offering for existing clients and enable the business to gain new clients.

The projected turnover through to May 2018 reflects an increase of 22% compared to 2015/16 and 14% compared to 2014/15. This is a relatively short term forecast and reflects the immediate gains which can be made in the near future. Long term expectations far exceed the turnover levels projected in the next three years as a result of the additional business development which will be undertaken and new clients gained as a result of this, something which capacity issues have limited in recent years.

The increased turnover directly leads to increased gross profit levels as shown above. The gross profit margin percentage slightly reduces from 2015/16 to 2018/19 as a result of increased investment in staff levels and machinery which have a direct impact on gross profit.

The projected EBITDA increases by 10% compared to 2015/16 and 100% compared to 2014/15. Again periods past the initial three year forecast are expected to see increased levels over and above the figures projected above as a result of continued increase in sales.

The 2016/17 accounting period reflects a significant increase in gross assets as a result of the property development. This continues to move upwards over time as a result of the commitment to invest in new machinery to facilitate the growing turnover. This increase is not directly matched with

an increase in net assets as a result of the funding provided to support the development, although there is still significant uplift in the net assets position.

The forecast figures support the fact that the planned development will secure the future of the business by growing turnover, providing financial stability, securing jobs and creating new job roles both in the short to medium term and into the longer term future of the company.

Are local funding contributions confirmed, and if not, when will they be confirmed?	Yes
What are the key financial risks?	<p>Predicted sales levels are not achieved. However, the management team believe their short term forecasts are prudent. Some Long Term Agreements are in place which significantly underpin the predicted sales levels.</p> <p>Many existing and prospect customers are encouraging the company to extend the work shop as this provides enhanced capacity for their business with a very reliable key supplier to their business.</p> <p>Building costs are higher than anticipated. The company has mitigated this by agreeing a fixed price contract with the building company, which includes a provision for contingencies.</p>
Has any sensitivity analysis been undertaken on costs?	<p>The management team monitor the costs of running the business very closely. They have an internal accountant who prepares regular management accounts and cash flow forecasts and the support of Menzies LLP, a top 20 firm of Chartered Accountants in the UK.</p> <p>Dave Fripp, the Managing Director, meets at least once a month with Menzies LLP to review financial performance.</p> <p>This level of financial management demonstrates the management teams strong understanding of the impact of costs within the company. This knowledge and expertise has been used in analysing the current and future costs of running the business as part of submitting this proposal. The management team believe they have been prudent in the assumptions used in predicting future costs.</p>
Is the proposal compatible with EU State aid regulations?	Yes. Under state aid rules, research infrastructures which carry out economic activities can be supported to 50% of the investment costs. Such research infrastructures supported in this way must be open to several users available at a market rate.
Any other information or further comments on the proposal not captured in other sections of this form	None.

6 Management Case

Who is the project manager/client?	David Fripp, Managing Director.
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Set out the key decision points	<p>The size and design of the new state of the art work shop and office space to support business growth, which existing and prospect customers are encouraging the company to go for. This has been well considered and planned with professional assistance from architects and a building company.</p> <p>Selection of building company.</p> <p>Timing and level of funding the company requires to deliver the new innovative work shop and new machinery.</p>
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Set out the key actions and milestone to enable delivery of this project			
Action / Milestones	Target Completion Date	Person Responsible	Current Position (Including risks / mitigation if necessary)
Final Draft Application	31/10/2016	David Fripp	Complete
Approval of Funding	30/11/2016	Solent LEP	Planned
Bank Funding in Place	31/12/2016	LLoyds	Planned
Building work to start on time	04/01/2017	Impact Developers	Planned
Timeline of key stages to be strictly adhered to	31/03/2016	Impact Developers	Planned
Timely payments and reclaiming of Funding	31/03/2017	Williams & Co.	Planned

Set out the governance framework that will be in place	The management team will meet once a week to discuss the progress of the project. Extraordinary meetings, if required, will be arranged to ensure the project is managed and completed in a timely and professional manner.
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What is the proposed reporting and approval process	<p>Lloyds Bank has provided a Bank Offer Letter for their funds. The company funds will be available from company trading. The company awaits the decision from Solent LEP on the requested grant funding.</p> <p>The proposed reporting and approval process will be dealt with through the governance framework described above. The management team weekly meetings will manage the reporting process and approval process.</p>