

ANNUAL REPORT 2020

MARCH 2020

SubProducer 3

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Message from the CEO

We expected 2020 to be a great year. We started the year worse than the expected, but it turns out to be a great first quarter of our company operation.

The start of 2020 was difficult for us. The third day of the year our profit was really negative, so we decided to take a Bank Loan. We started running in low production, so we weren't maximizing all our potential as a company. As the days were passing our profit was increasing until a point it was positive again. There was the moment to invest in machinery and to rise production.

As we were increasing production, our company continued its growth moderately. We started optimizing our sales prices and production costs while we were maintaining health numbers of workers and good balance in the production.

During all the first quarter we have been improving our communication skills between the group and also external sharing. This help us to create a more organized, strategic and stable company. Our sales prove this great communication between us.

On the other hand, we have been improving our production output to a point that we has a great output of both of our finished products: electronics and processors. With the processors production we weren't leaders, but we were just behind the first one in production output.

During these first months of this new year our consumers services were great. Our deliveries were always in-time and all our customers were satisfied with our offers and our treatment to them. It was this great work that we were starting to make business deals with two buyers.

During March we started running a navipad business, because our investment in R&D paid off. We reached the quality rate necessary to have ready the new navipads and the other companies were running out of navipads, so it was the perfect business for that days.

In the future, our company is willing to become the leader of processors production to improve and be the first ones in production in this kind of market. We are going to continue working on our team skills to improve our consumer service and offer out best option to all our client.

More on, we are going to continue expanding our navipad business. Our company can make a difference in this business and we want to take advantage and continue earing higher profit.

To sum up, the company is in a good position. Our results of the first quarter show that we are in the way to succeed.

A stylized, handwritten signature in black ink, appearing to be the initials 'CA' or a similar monogram.

Clara Albert
President and CEO

Operational Report

There are several tasks in the team divided of what we are good at. Our team was the operational top management of the company and we had different functions across the team. There are four main roles in our company: operations, production, procurement, and sales.

Operations Manager was handling the bigger picture of the project and making decisions together with other managers in the team. The overall process was running perfect thanks to her.

Production Manager was handling all the production shifts in the company and managed a good flow of production output. He was solving all the problems related to production and also writing a daily production plan to make sure to have all the necessary raw materials to produce the desire quantity to balance the customer demand.

Procurement Manager was updating out automatic purchase order system and quickly purchase any raw material we were short of. He was using the Production Manager's plan.

Sales Manager was selling and marketing our products. She has to get in touch with the Production Manager to know the daily demand of the products and with the Procurement Manager to increase visibility of the market changes. She was always in contact with the customers and making them the best offer.

All the knowledge from the different managers is made like this to complement each other to create a well-functioned team.

Income Statement

Revenue (Sales)

As I said before, our start of the year was difficult for us. During the first and a half month our revenues were growing at a low rate. We started the year with 0 revenues, because it was a new company, and in February 15 the sales were 23 430 210€. From that moment, the revenues were increasing much faster, just what we wanted. In March 20, the revenues were 64 079 050€ that shows a fruitful company. Figure 1 demonstrates the growth of sales for the first quarter.

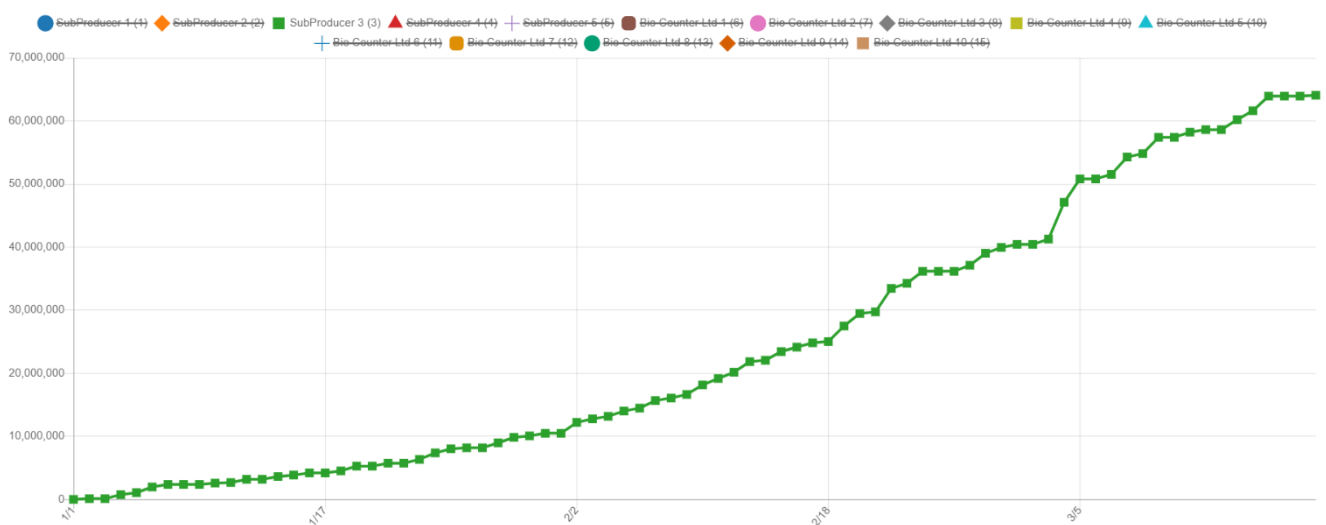


Figure 1. Revenues (Sales) of Q1

Gross Margin (%)

In the graph of gross margin, you can also see that our company had some problems during the first's days of the year. Our fixed costs were higher than our revenue, so the gross margin was negative until we had a Bank Loan. This loan helps us to start "again". After the loan our gross margin went up to healthy amount of over 30%. During February was over 40% margin, which was the expected for our company. Little drip on the last half of February is due the differences in product prices and in the growing expenses from different transportation and maintenance costs.

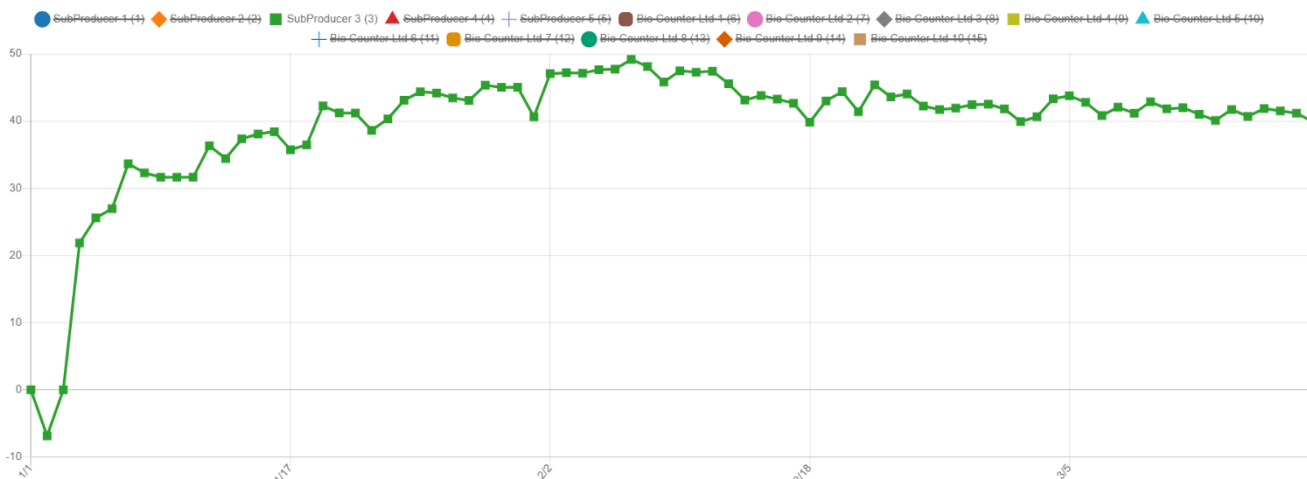


Figure 2. Gross Margin (%) of Q1

Result

When we are looking at the company results, we can see that our year is becoming better. We started the year in negative numbers until February, despite some January days. Negative values can be explained by looking the Figure 2 when the gross margin was also negative in January. Despite the bad start of the year, in February our total results started rising until 8,263,171€ on 20th of March. This grow was due the increase in production and the tweaking to our product prices.

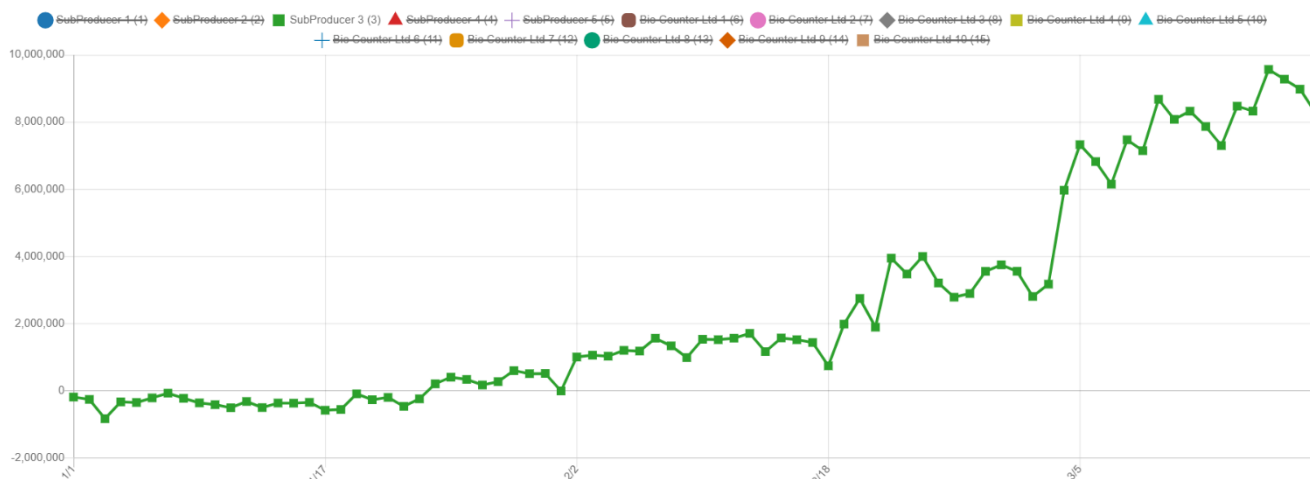


Figure 3. Result of Q1

Supply Chain analysis

Costs in our supply chain were mainly raw materials. Was that high because it is the most important cost in our company. Without raw material, we weren't able to produce any product. There were more expenses related to production such as fixed machinery, production fixed expenses, production variable, production salaries and extra shifts work.

At the start of the year we didn't realize how important was R&D. We did not invest enough, but as the days went by, we started to invest more and more into R&D. Towards the end of February, we had 3 million euros going into the R&D of the navipads per month. We were the first SubProducer company to reach the quality necessary, 2.5, to start producing ourselves the navipads. It happened on February 27 and after we never went above 2.5.

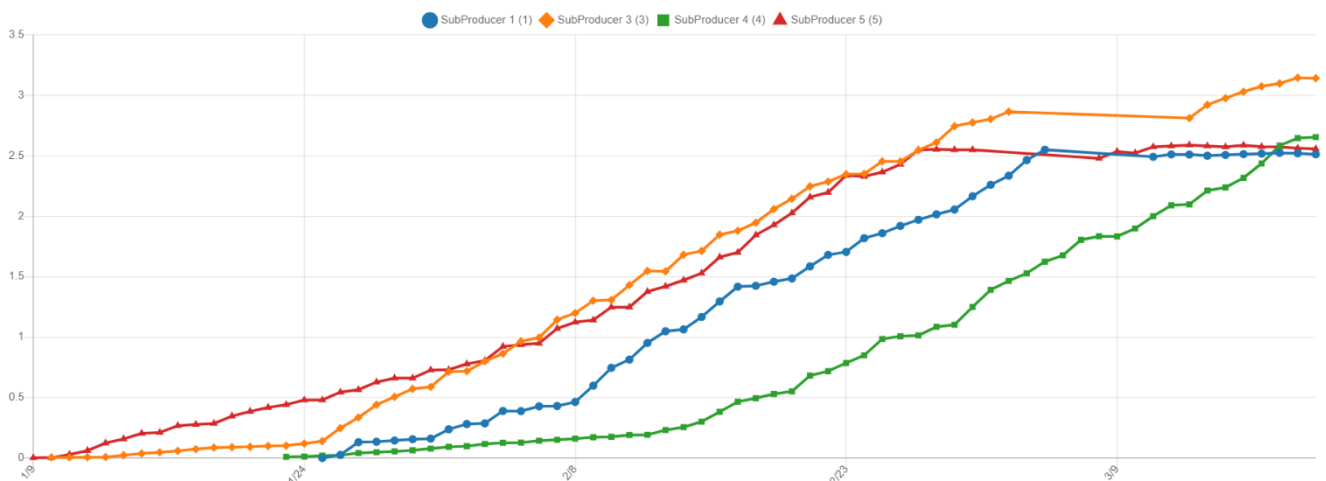


Figure 4. Quality of navipads

Production costs are being analyzed from the perspective of electronics and processors. Those are the products we manufactured and sold.

Electronics production price tend to change during the first quarter of the year but were around 55€. Our selling price was 165€ on average.

On the other hand, production costs of processors were also changing but not that much. On average was 670€, until last days of February when we were able to produce our own navipads. The average price drop to 490€ per unit. Our selling price was 1700€ per unit, so it was a big profit.

Figure 5 and 6 show the average price of both products during the first quarter of the year.

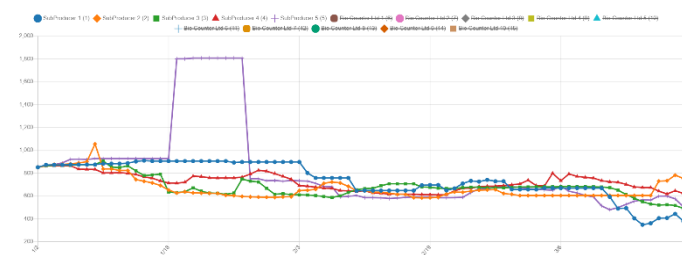


Figure 5. Average price of processors

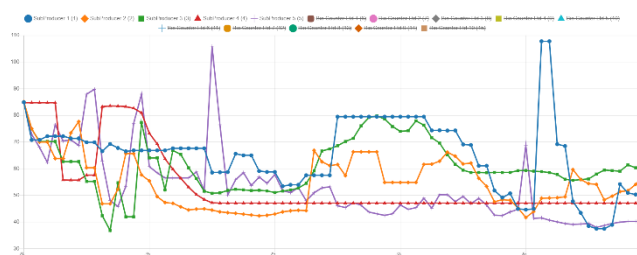


Figure 6. Average price of electronics

At the end of February, we had to low the raw materials re-order points, since the inventory was quite huge. That problem rises our waste from inventories and also the warehousing costs.

We had good relationships with the customers and normally they were agreeing on our price and transportation.

To sum up, I can say that our supply chains management was effective during the first term of the year. We had enough finished products in our inventory most of the time to supply what was needed for the costumers. We were always trying to have some processors and electronics in our inventory, so all the customers could make orders to us wherever they want, and we could do them an offer.

Market analysis

Our market position was pretty well. Our profit was higher and higher every day.

In February, we end with a good balance in machinery. We didn't to invest more on anything in that moment. We were avoiding investment costs for a while, so our profit could be higher.

At the end of first quarter we were market leaders what comes to production output of electronics. The problem was that we weren't leaders of production units. In the figure 7 you can see the cumulative value per week produced by our company and our competitors. Our main competitors in that product are SubProducer 2 and especially SubProducer 5. We ended the quarter with 207,579 cumulative units produced, almost 40,000 units behind SubProducer 2 and 60,000 from company number 5, but our value has less difference. That show that our Sales Manager did a great work because we almost earn the same amount of money than out competitors with much less inventory.

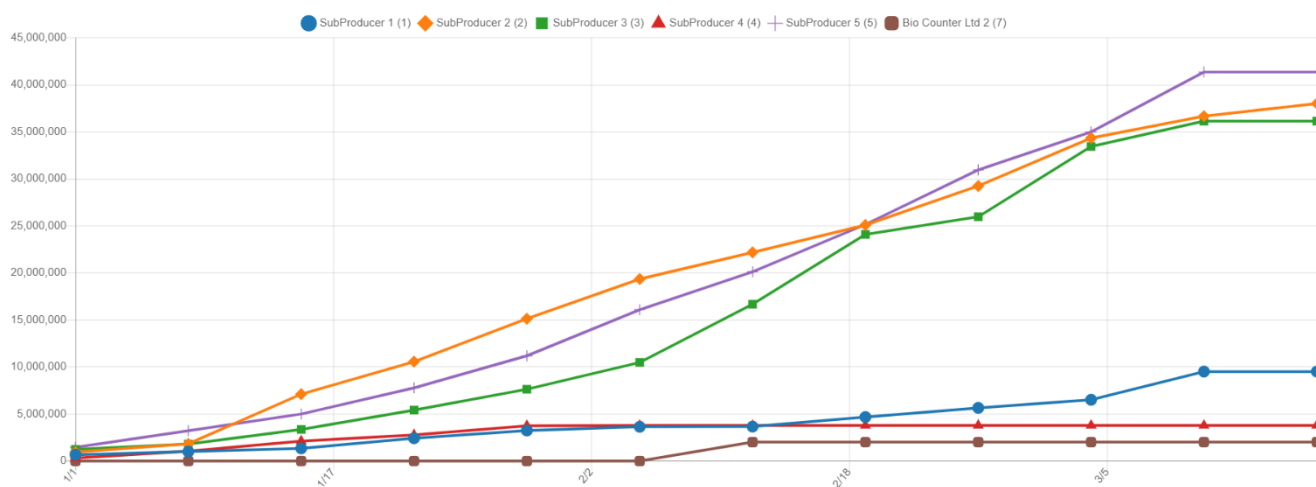


Figure 7. Cumulative value per week of electronics

In the processors market we were a little bit better than the electronic's market. We ended the quarter with 15,463 cumulative units produced, more than 4,500 units behind SubProducer 4, the best output in this market. As what happened with the electronics price, our Sales Manager also did a great work. Our cumulative price was much better than the others companies, so we were earning more profit than them. You can see all the results in figure 8.

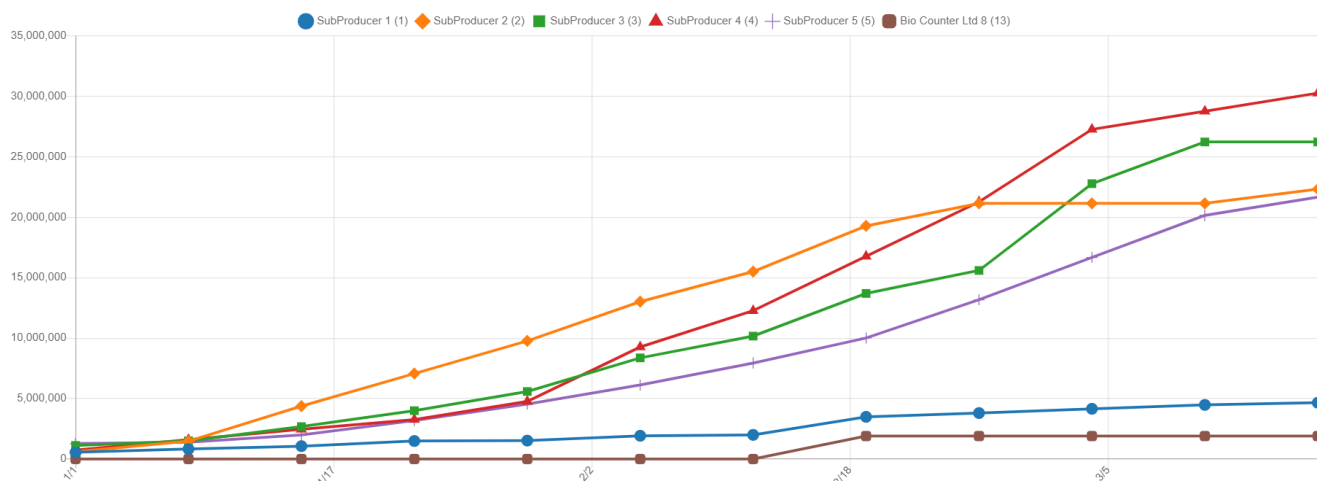


Figure 8. Cumulative value per week of processors

As a result of this conclusions, our most severe competitors are SubProducers 4 and 5. We were running at lower production than them, but our earning was better, so that's the best result possible. Our priority was to adapt ourselves to the demand of BioProducers companies. During the first quarter we invested in production to have enough machinery to satisfy the costumer's demand.

The most important market areas for us was processors, but was depending on the demand of both products. We had a good ouput for both of them, but our bests results were with the processors market.

We were always trying to offer the best product quality possible. We were also improving our re-order points of raw material to buy them as cheper as possible. It was useful because the average price of each unit was lower, so we could offer a lower price for the products and be the ones chosen by the customers.

Normally, our offers were 72 hours delivery and 7 days payment, but if a customer needed a faster delivery we had another options: 24 and 48 hours. However, the product price was rising as faster was the delivery. Moreover, at the end of February our company gained some regular costumers, so normally they were getting some fixed number of units (the ones previosly accorded).

Our future vision is optimist. Our results were as we expected and our profit was rising every month.