



# **VR Farms Incorporated**

## Business Plan



# Non Disclosure Notice

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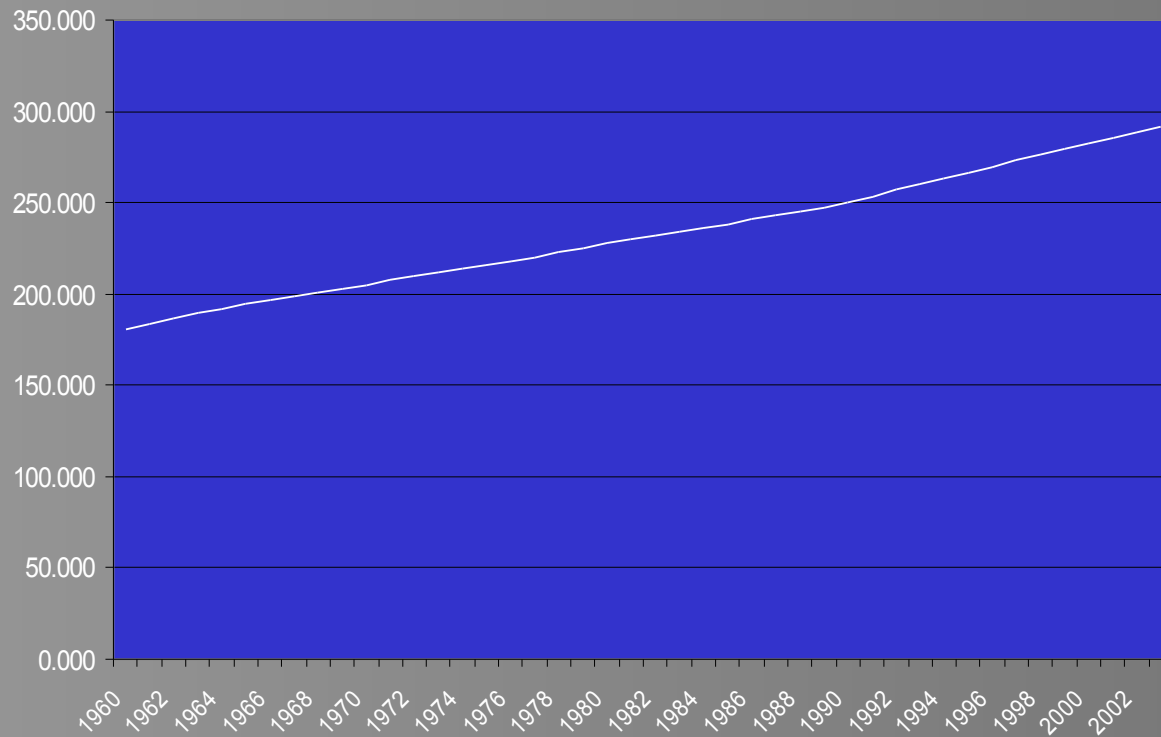


# Mission Statement

- VR Farms Incorporated will create jobs to grow food for consumers.
- VR Farms will provide fresh, nutritious, and delicious produce grown by
- Local Owner Operated Family Farms and Community Gardens in a Safe and Sustainable Indoor Environment with Food sold on web stores directly to retail.
- VR Farms will create a distributed network of Owner Operated Indoor Family Farms.
- Our produce is delivered in hours not days.

# Growing Consumer Base

US population (millions)



# Market Growth – per capita

## Consumption increases as population grows

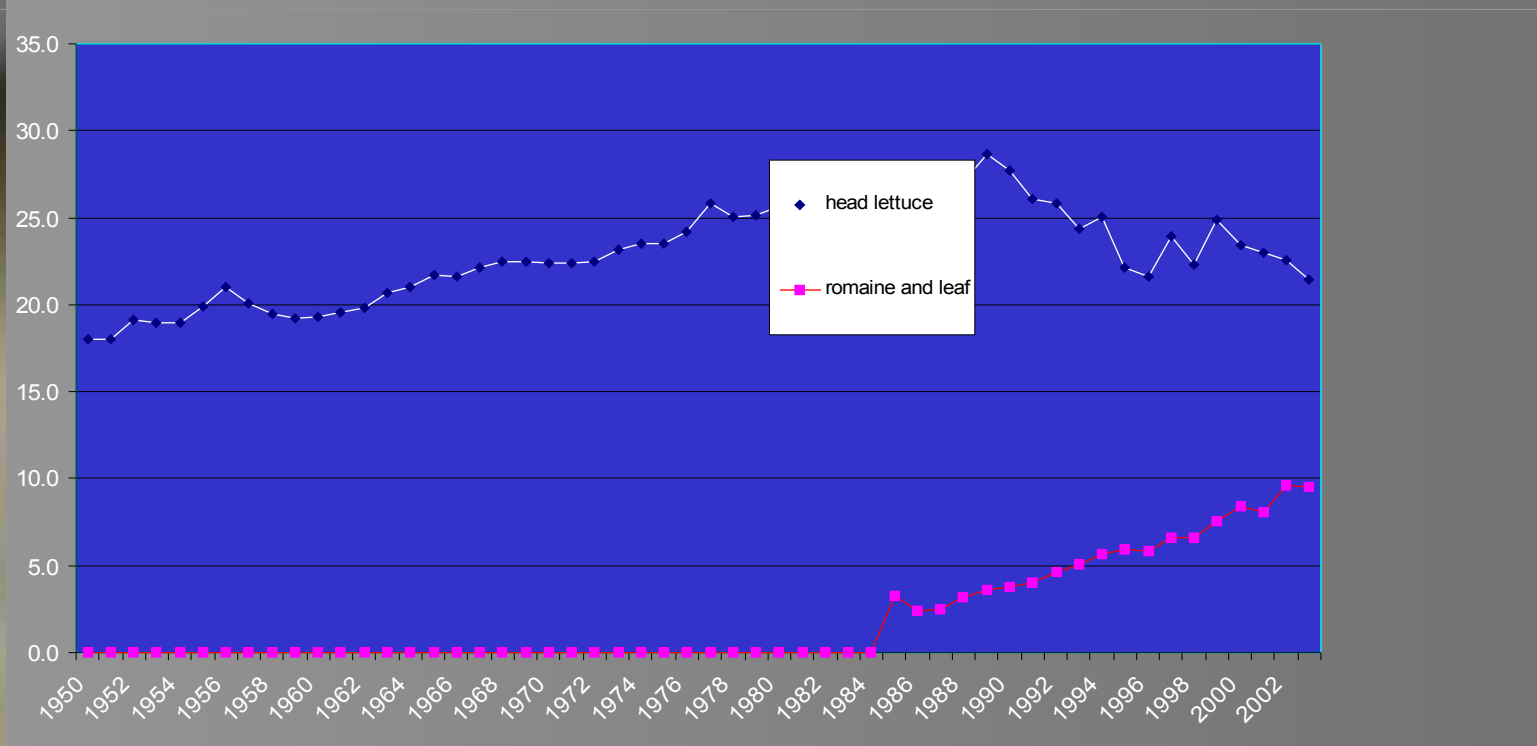
Table 1

### Per Capita Consumption of Fresh Fruits and Vegetables Increased 12.3 Percent Between 1987 and 1997

Product	1987	1997	Percentage change
	Pounds per person		Percent
Total fresh fruits and vegetables	284.0	318.8	12.3
Fresh fruits	121.6	133.2	9.5
Fresh vegetables	162.4	185.6	14.3

Source: U.S. Department of Agriculture, Economic Research Service, *Fruit and Tree Nuts Situation and Outlook Yearbook, 1999*, and *Vegetables and Specialties Situation and Outlook Yearbook, 1999*.

# Example – Lettuce Consumption





# Total Produce Market

- Total Consumption of fresh fruits and vegetables by 2020 will be 100 billion US dollars.

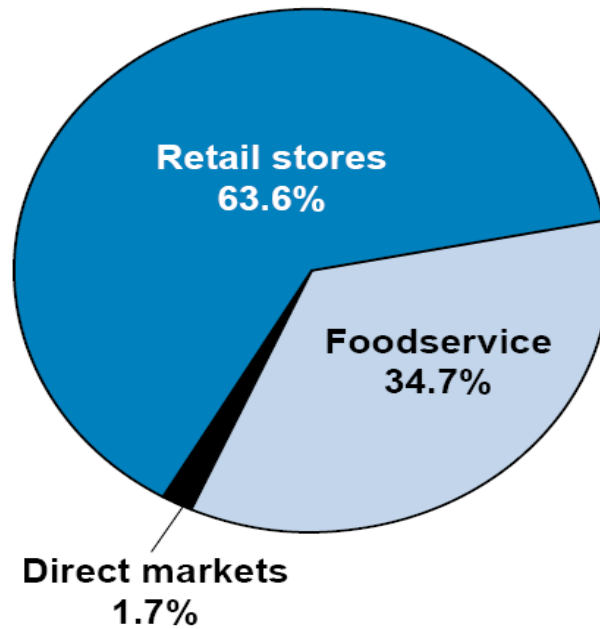
» *USDA RESEARCH SERVICE*

# Changing Market

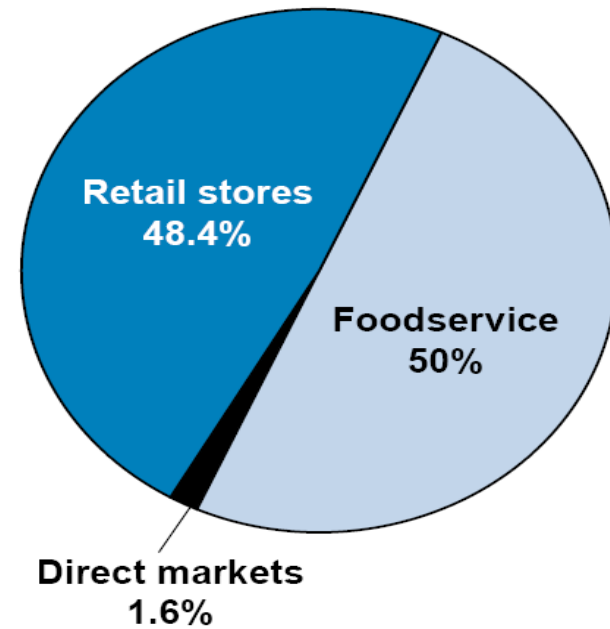
## More Outlets and Increasing Variety

Figure 1

**Retail Stores Had the Largest Share of Produce Sales to Consumers in 1987...**



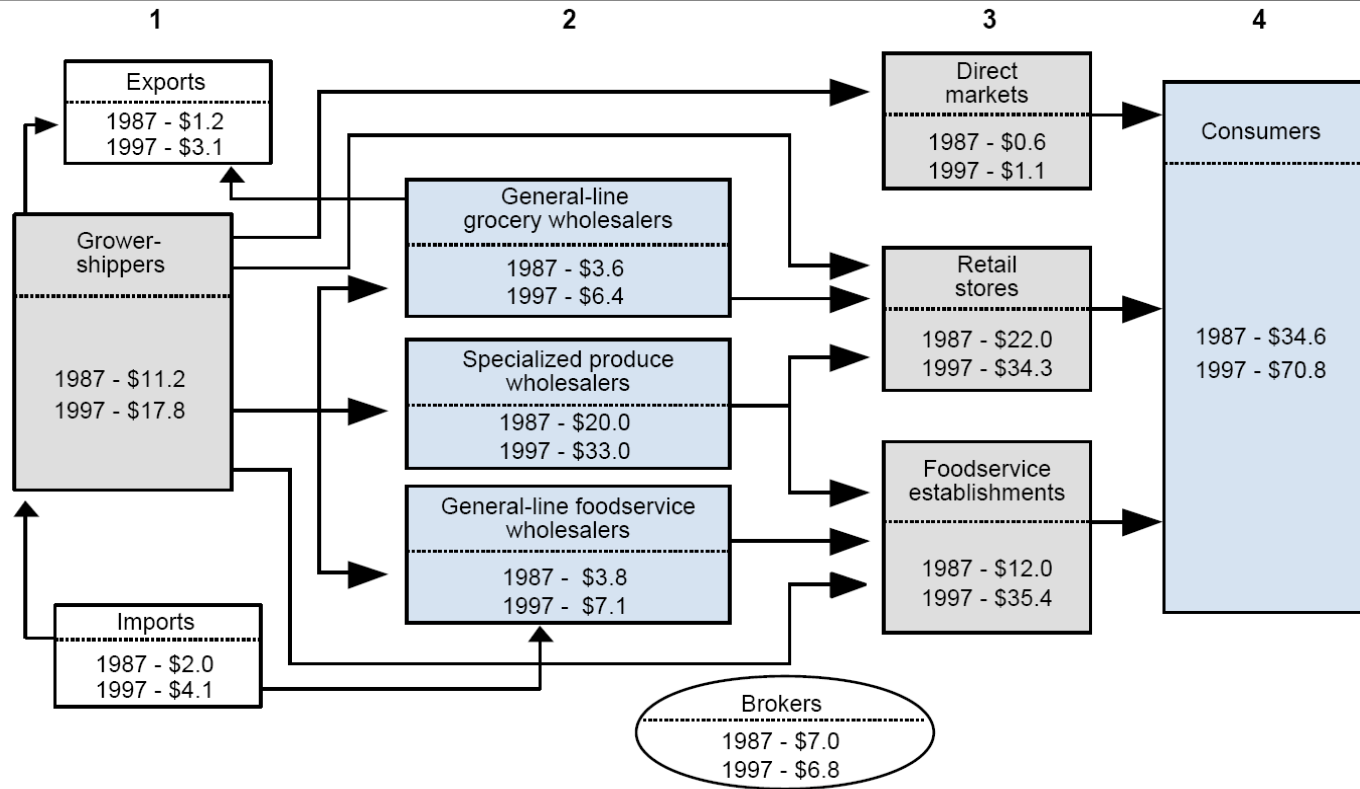
**...But, Foodservice Had the Largest Share in 1997**



Source: Figure 2.



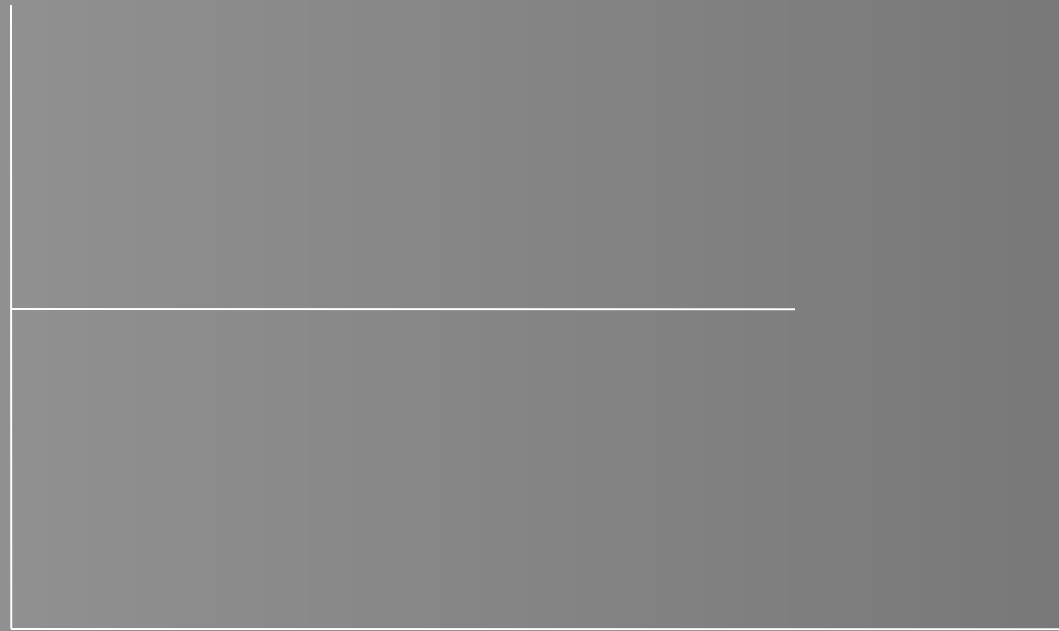
# Fresh Food Supply Chain



Note: All values are in billion dollars.

Sources: Census of Wholesale Trade; Census of Retail Trade *Blue Book*, 1997; McLaughlin and others, 1998.

# So What? We all know the Classic Commodity Demand Curve

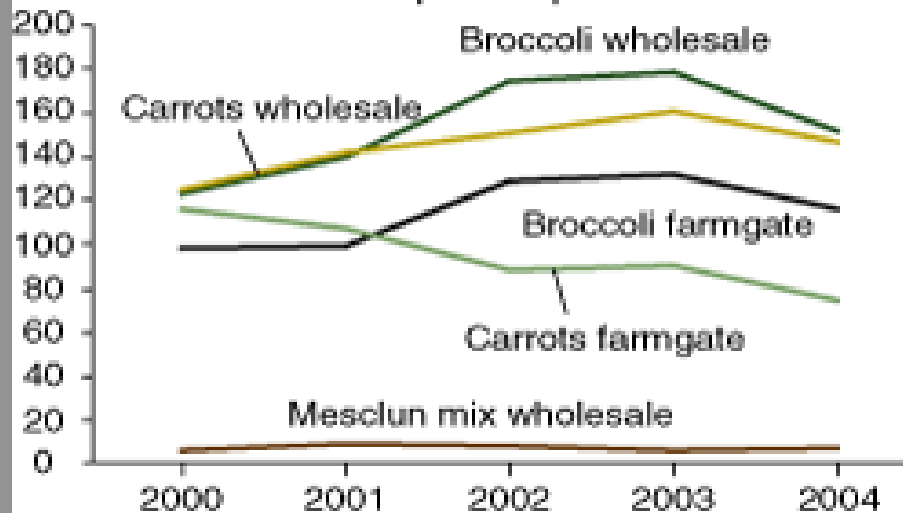


# Surprise

## Produce Price Inelasticity

### Wholesale price premiums for organic broccoli and carrots exceed 100 percent

Percent of conventional product price



Source: USDA, Economic Research Service.



# Lost Value

- Less than 19% of dollars spent on fruit and vegetables goes to farmers.
- Food is picked early, processed, and shipped on average 1500 miles to market.
- Flavor and Nutrition is lost.
- Safety and Quality Control is lost.
- The cost to the environment and the global economy is a problem.
- Our Food Chain is Broken.



# Market need

- It is 2005+
- The Weather is changing.
- The Job Market is changing.
- Oil is \$60+ per barrel.
- We still grow our Food Outdoors in Dirt in Foreign Countries.
- The current system of production and distribution of fruits and vegetables leaves a big opportunity for an alternative method of production – Hydroponics.
- We create Good Jobs and Safe Food Profitably.

# A 2500 year old solution in IRAQ

## The Babylon Gardens





## A 2500 year old solution

- Hydroponics use less water
- Hydroponics can be grown longer producing better flavor
- Hydroponics use less energy
- Hydroponics use less or no pesticides



# So you want to be a hydroponics farmer?

- Large greenhouse
- Climate control
- Grow medium
- Light source/control
- Water filtration/reclamation
- Harvesting
- Plant monitoring
- *And that's just to grow a crop*



A close-up photograph of a white plastic water tap. The tap is partially open, and a stream of water is spraying out from the spout. The water is captured in mid-air, creating a misty, spray-like effect. The background is dark and out of focus.

## **You also have to run a business**

- Start up financing
- Government relations
- Marketing
- Accounting
- Distribution
- Other

# The Hydroponic Industry Today



Consumer

Equipment suppliers

Academic Community  
(Knowledge Capital)

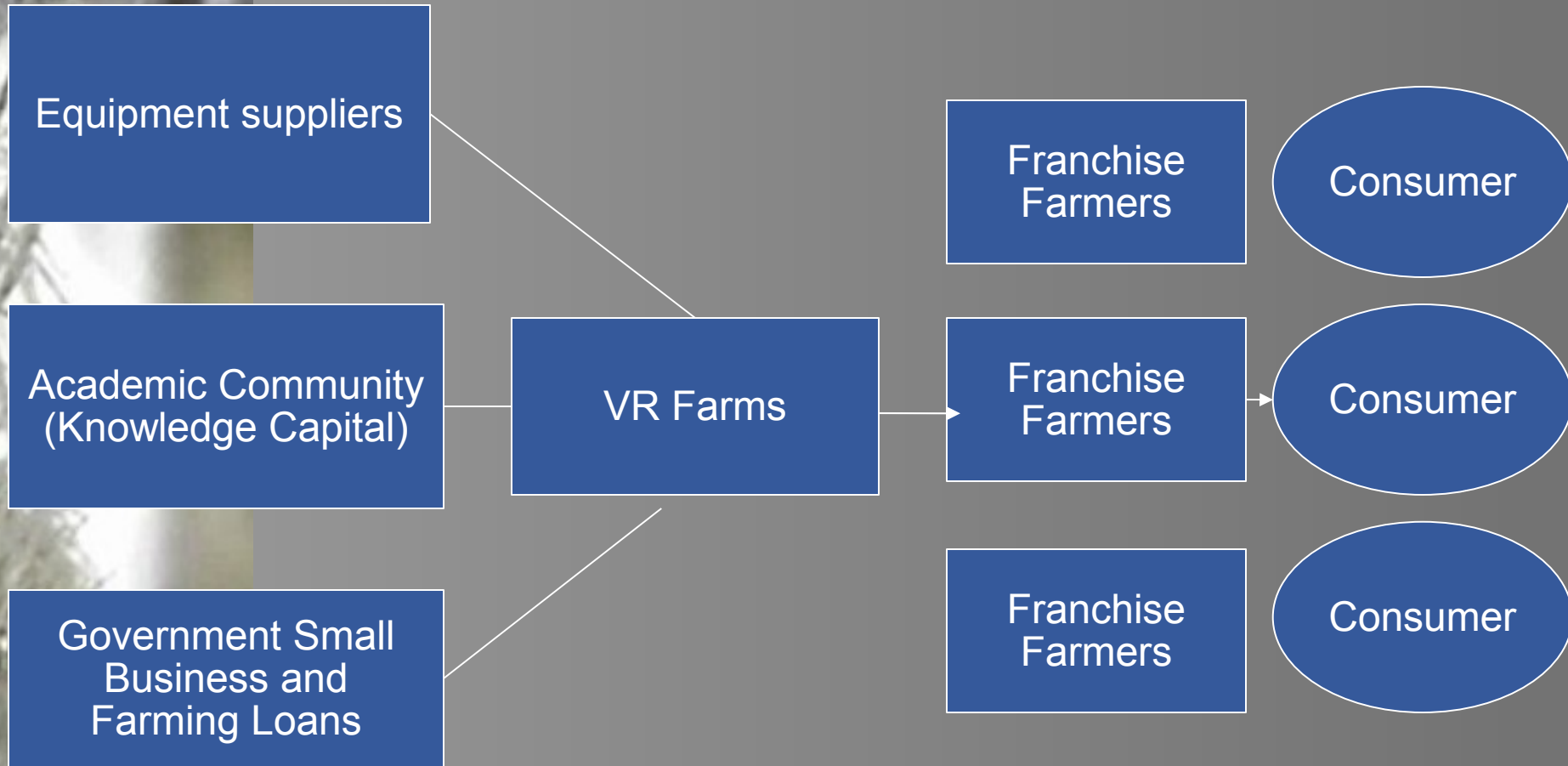
Government Small  
Business and  
Farming Loans

Consumer

Displaced Farmers

Consumer

# The Hydroponic Industry Engineered





# VR Farms Business Model

- VR Farms Incorporated is based on a franchise model. Franchisees partner with the parent company to start local outlets.
- Franchisees provide a local source for year round produce while VR Farms provides scientific and business systems, support, and training.
- No company has all the parts for an Indoor Farm.
- VR Farms was created to license all the parts.
- Our Franchisees Manufacture (Grow) Food locally, networked, geographically distributed, with low risk, little environmental damage, low cost, and high profits “Indoors” using High Technology.
- Our business model is simple and profitable.
- We create the Ultimate Manufacturing Jobs.



## VR Farms IP & Royalty Strategy

- VR Farms will obtain exclusive and non-exclusive rights to use the best hydroponic equipment from vendors as well as techniques and technologies from the academic community.
- VR Farms will obtain exclusive and non-exclusive rights to use the best technology from vendors for power, lighting, HVAC, water filtration, and SCADA.
- VR Farms is having a new Engineered Environment Structure designed and energy modeled for our use.
- VR Farms is Reverse Engineering Agriculture.
- VR Farms will pay royalties for IP used on a per site basis.



## **VR Farms Human Resource Strategy**

- VR Farms will use the continuing loss of traditional family farms to recruit committed franchisees before the knowledge base is lost forever.
- VR Farms will create new markets and consumers concerned with food health, quality, and safety.
- VR Farms will develop Best Practices for our Franchisees on how to operate.
- Our Distance Learning and Support Model will ensure our Franchisees succeed.



## VR Farms Financing Strategy

- VR Farms will leverage its unique franchise structure to obtain government loans for individual farmers while maintaining economies of scale associated with large corporations.
- VR Farms will create a “bridge loan” financing buffer for before and after startup to ensure our Franchisees will succeed.



## **VR Farms Compliance Strategy**

- VR Farms will exceed all local and federal government regulations by partnering with local academia to produce the safest food supply on the planet.
- VR Farms will exceed all local, state, and federal building, safety, and fire codes by over engineering our design.





## **VR Farms Marketing Strategy**

- VR Farms will use its network of state of the art production facilities to create a reputation for the best tasting and safest food.
- VR Farms will partner initially with Food Retailers and Service Providers who share this commitment as it gains market share.
- Our competition is agribusiness and long haul transportation from foreign countries of potentially unsafe food.

VR Farms, INC.					
Projected Income Statement					
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Revenues</b>					
Loan /Stock	\$1,600,000	\$0	\$0	\$0	\$0
Fees for Service	\$1,120,833	\$4,125,000	\$6,750,000	\$12,500,000	\$25,000,000
Finder Fees Paid — Total Sites minus Corp Built Sites	(\$23,000)	(\$37,500)	(\$50,000)	(\$100,000)	(\$225,000)
Corporate Built Sites Sales	\$100,000	\$1,250,000	\$2,500,000	\$2,500,000	\$2,500,000
Number of New Corporate Built Sites Added per Yr	2	25	50	50	50
Total Number of Sites	48	100	150	250	500
<b>Total Revenues</b>	<b>\$2,797,833</b>	<b>\$5,337,500</b>	<b>\$9,200,000</b>	<b>\$14,900,000</b>	<b>\$27,275,000</b>
<b>Cost of Revenues</b>					
Loan Repay (3 Yr)	\$619,530	\$619,530	\$619,530	\$0	\$0
Fixed ASP Costs	\$630,200	\$557,200	\$1,440,000	\$2,400,000	\$4,800,000
Direct Variable Costs	\$1,961,877	\$1,896,200	\$3,636,000	\$4,796,000	\$7,346,000
<b>Total Cost of Revenues</b>	<b>\$3,211,607</b>	<b>\$3,072,930</b>	<b>\$5,695,530</b>	<b>\$7,196,000</b>	<b>\$12,146,000</b>
<b>Gross Margin</b>	<b>\$ (413,774)</b>	<b>\$ 2,264,570</b>	<b>\$ 3,504,470</b>	<b>\$ 7,704,000</b>	<b>\$ 15,129,000</b>
<b>Operating Expenses</b>					
S&M	\$180,000	\$180,000	\$220,000	\$250,000	\$285,000
G&A	\$3,011,607	\$2,872,930	\$5,425,530	\$6,896,000	\$11,811,000
R&D	\$20,000	\$20,000	\$50,000	\$50,000	\$50,000
<b>Total Operating Expenses</b>	<b>\$3,211,607</b>	<b>\$3,072,930</b>	<b>\$5,695,530</b>	<b>\$7,196,000</b>	<b>\$12,146,000</b>
<b>Total EBITDA*</b>	<b>\$ (413,774)</b>	<b>\$ 2,264,570</b>	<b>\$ 3,504,470</b>	<b>\$ 7,704,000</b>	<b>\$ 15,129,000</b>
*Earnings before interest, taxes, depreciation, and amortization					
	-14.79%	42.43%	38.09%	51.70%	55.47%

A close-up photograph of a plant's root system in a hydroponic system. The roots are white and fibrous, extending downwards from a grey plastic container. The background is a soft, out-of-focus green, suggesting a growing environment.

# Engineered Environment Agriculture

## E<sup>2</sup>A

- We will Architect, AutoCAD, and Energy Model a new structure to replace the current greenhouse design.
- Our new design will be an Engineered Structure, Not a glass house on a concrete slab.
- Our design will be an AAC building with a clear ETFE Pillow Roof Technology.
- We can grow Anything Indoors Anywhere.



# Crop Growing Systems

- Academic Institutions, Universities, and Corporations have the crop growing systems and technology VR Farms will offer to our franchisees.
- We will work with these groups to AutoCAD, PDF, and create Distance Learning Course Material for use by the Franchisees.
- The Internet allows franchisees to network for marketing, support, and new product development.



# Virtual Reality Designed

- Our Engineered Environment Agriculture (E<sup>2</sup>A) building, growing systems, power generators, water filtration, lighting systems, and SCADA software all become AutoCAD Objects.
- We will import our design into a Virtual Reality Lab to debug our design before any sites are built.
- Our systems are standardized.
- This level of engineering allows us to design a site for anywhere to grow anything.



# Growing Different Crops

- Our unique design and business model allow us to offer our Franchisees the growing, lighting, and support systems to grow multiple crops simultaneously.
- Our network allows the franchisees to work together to develop new crops.



## **Distance Learning & Remote Support**

- Franchisees will have Support Manuals and Training Course Materials for all aspects of their sites.
- The Internet allows Video Conferencing and Remote Support for the Network Appliances that automate each site.
- Franchisees can Peer to Peer Network for support, marketing, new product development, and training.

A close-up photograph of a mechanical component, possibly a motor or actuator, with a bundle of thin, light-colored wires extending downwards. The background is dark and out of focus.

## Accounting System and Web Store

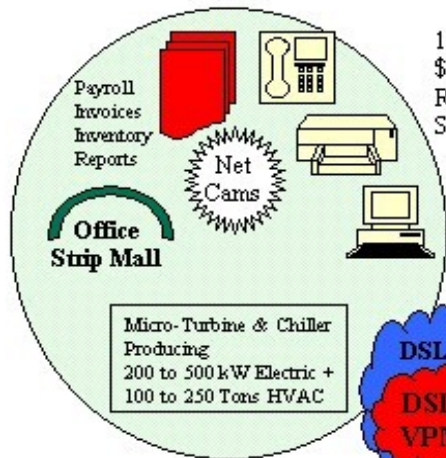
- Each site will have Network Appliances for -
- SAP Accounting System linked to a Web Store
- SCADA control for site automation
- Redundant alarm and power backup
- On site data backup and restore
- Our distributed e-commerce approach to food production allows local wholesalers, retailers, and supermarkets to order local produce directly from local sources for direct delivery in hours not days with a PDA for signature and electronic debiting rather than a paper invoice.
- Direct Store Delivery allows the Franchisees a higher profit.





# Network Appliances

- Our goal is to build 1000 Owner Operated Family Farmer Sites, 20 per state, in 2 years.
- Network Appliances allow remote support and updates.
- Our level of sophistication and use of the Internet allows us to build and support sites for a fraction of today's costs.
- Our standardization allows us to continue to improve our systems.

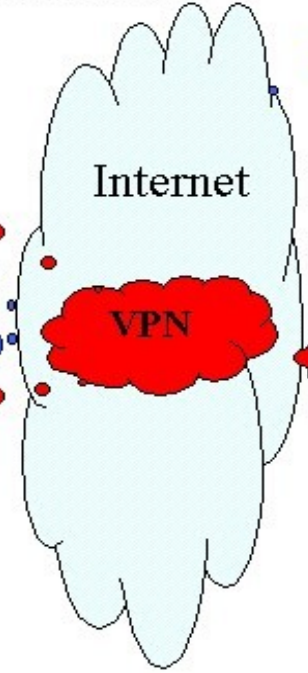
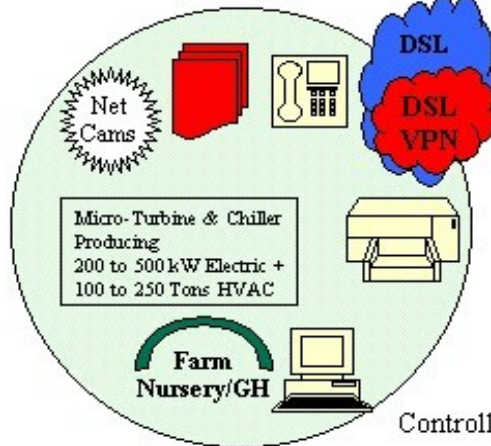


1 Acre CAE  
\$1500K Installed  
Revenue \$1500K/yr  
Service Fees \$50k/yr

Franchise Corporate Office \$1M  
Accounting, Marketing, R&D, Support  
Backup Data, Tape, Servers, & Archive  
Monitoring, Net Cam, Controls, Alarms

DSL/Cable Install - \$1150  
MUsr/MIS/FW/DSL/LA/LD  
VM/EM/Domain-\$550/mo

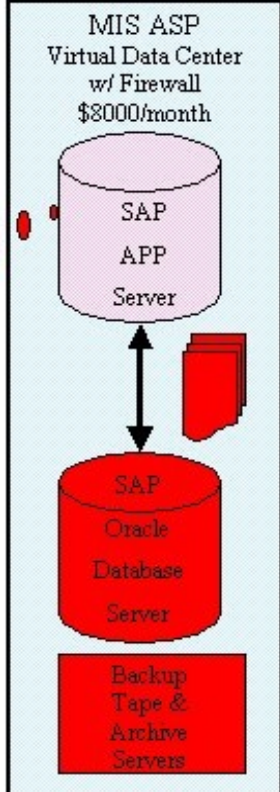
DotCom1 - DotCom99 - Anywhere



T1-ATM  
\$1900/mo



SAP/R3 Accounting  
Web E-Store  
Fin,MM,HR,SD  
\$9 M HW/SW  
Installed & Configured



Controlled Agriculture Environment (CAE) / Telecomm & Data Network



# Technology Strategy

- We have simplified almost every everything

Engineered Environment Structure

Crop Growing Systems

Accounting and Web Stores

Distance Learning

Remote support