

# **XYZ Tyre Dealer Pty Ltd**

30-06-2006 - 30-06-2007

## The Key Measures of Business Performance

### Profitability %

Current Period 11.04 . Last Period 11.03 . Positive trend upwards.  
Can be further improved by improving Price, Volume, COGS and Operating Expense management.

### Activity

Current Period 2.91 . Last Period 2.93 . Negative trend downwards.  
Can be maximised by efficient use of assets, minimise working capital and selling-off unused assets.

### Working Capital %

Current Period 1.02 . Last Period 3.58 . Positive trend downwards.  
If Revenue is growing, ensure Working Capital% remains below Gross Margin %.

### ROCE %

Current Period 32.14 . Last Period 32.29 . Negative trend downwards.  
The return earned on Net Operating Assets is greater than cost of funding them.

### Cash After Operations

Current Period 331,445 . Last Period 356,344 . Negative trend downwards.  
The business has the ability to fund itself from operational activities.

### Change in Net Debt

Current Period 45,115 . Last Period 251,256 . Negative trend downwards.  
The business' Total Debt commitments have risen.

### Interest Cover

Current Period 0.00 . Last Period 0.00 . No movement between periods.  
Interest Commitments cannot be met from operational profits.

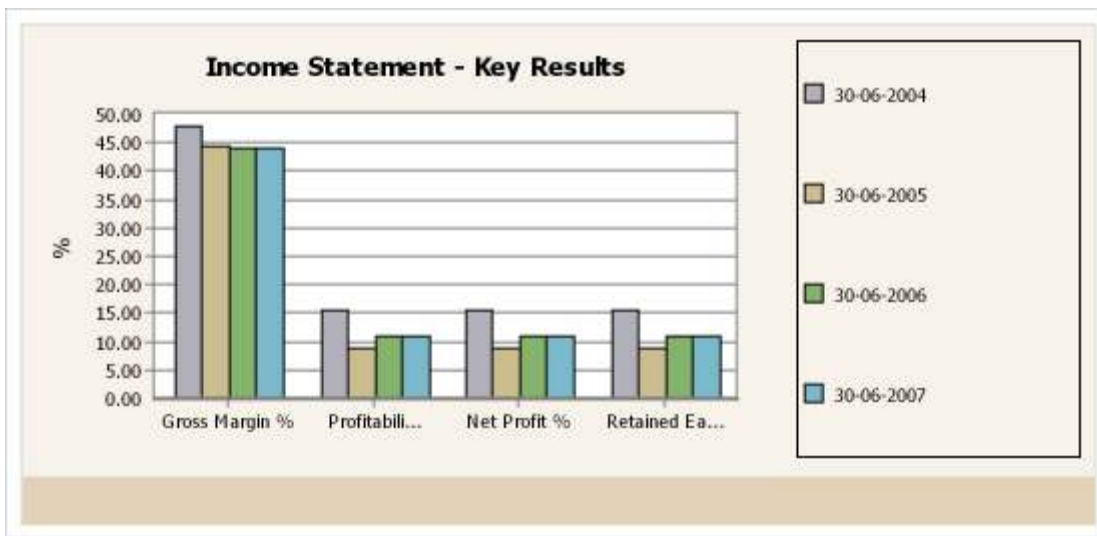
### Debt Service Cover

Current Period 0.00 . Last Period 0.00 . No movement between periods.  
Total Bank Commitments cannot be met from Net Cash After Operations.

Breakeven Point	Goalseek - Solve
<b>Profitability % = 0</b>	
Price Change %	Change by (11.04)
COGS %	Change by 11.04
Operating Expenses	Change by 265,000
<b>Cash After Operations = 0</b>	
Revenue Growth %	Change by (134.91)
Price Change %	Change by (15.92)
COGS %	Change by 17.68
Operating Expenses	Change by 331,445
<b>Change in Net Debt = 0</b>	
Revenue Growth %	Change by (18.36)
Price Change %	Change by (2.17)
COGS %	Change by 2.41
Operating Expenses	Change by 45,115

Key Driver Movements	30-06-2007
Revenue Growth %	Down 7.03
COGS %	Down 0.01
Price Change %	Up 0.00
Operating Expenses %	Down 0.03
Effect Interest %	Up 0.00
Effect Tax %	Up 0.00
Days Receivable	Down 2.08
Days Inventory	Up 0.00
Days Payable	Up 13.04

# Income Statement - Key Results



## Financial Highlights 30-06-2007

Gross Margin %	44.08
	Up 0.01
Profitability %	11.04
	Up 0.01
Net Profit %	11.04
	Up 0.01
Retained Earnings %	11.04
	Up 0.01
Revenue	2,400,000
	Up 18,243

## Focus Points

A business can be broken down into 3 components: Sales/Marketing, Operations and Finance. Responsibility for each element of the Income Statement can be attributed to these areas:

1. Gross Margin through Price and Volume - Sales/Marketing
2. Gross Margin through COGS minimisation - Operations
3. EBIT through Operating Expense management - Operations and Finance
4. Net Profit through Interest and Tax minimisation - Finance

Profitability% is one of the Key Business Measures and should be examined in conjunction with your Asset Turnover.

## Strategy - Goalseek

<b>To improve Profitability %</b>	<b>to 12.15</b>
Change Price Change %	by 1.26
Change COGS %	to 54.81
Change Operating Expenses	to 759,500

# Price Volume Sensitivity



## Financial Highlights 30-06-2007

Gross Margin %: Price is more effective than Volume **by 1.01 times**

Profitability %: Price is more effective than Volume **by 1.08 times**

Net Profit %: Price is more effective than Volume **by 1.08 times**

## Focus Points

To make intelligent price volume decisions ensure you understand the Price Volume relationship. An increase in Price will have a more favorable impact on business performance and more quickly improve operational results than an increase in Volume. This is because a 1% increase in price will NOT IMPACT COGS, Operating Expenses or Inventory as Volume does.

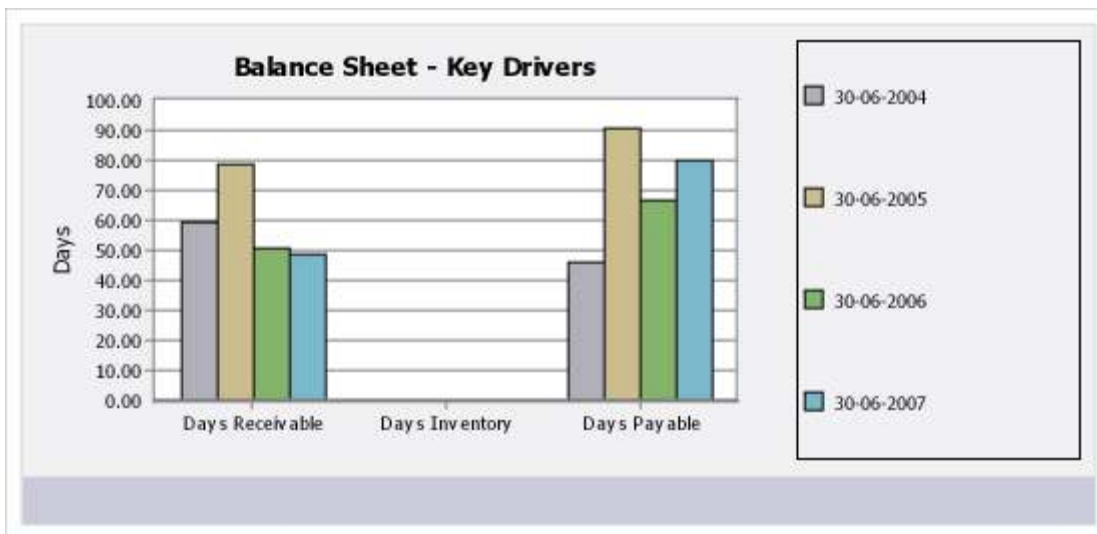
Tip: Changing the mix of Products or Services towards higher margin products/services will have a significant impact on Gross Margin and EBIT.

## Strategy - What If?

**An increase in Price by 1%**  
 Changes Cash After Operations by 20,818  
 Changes Change in Net Debt by 20,818  
 Changes ROCE % by 2.78

**An increase in Volume by 1%**  
 Changes Cash After Operations by 2,457  
 Changes Change in Net Debt by 2,457  
 Changes ROCE % by 0.32

## Balance Sheet - Key Drivers



### Financial Highlights 30-06-2007

Days Receivable	48.39
Average	59.30
Days Inventory	0.00
Average	0.00
Days Payable	79.89
Average	70.97

### Focus Points

Days Receivable, Days Payable and Days Inventory are critical drivers of a businesses performance and thus management needs to be very aware of their trends over time.

Manufacturers focus on the elements of Inventory: Raw Materials, WIP & Finished Goods.

Distributors and Retailers focus on converting slow moving stock items to cash.

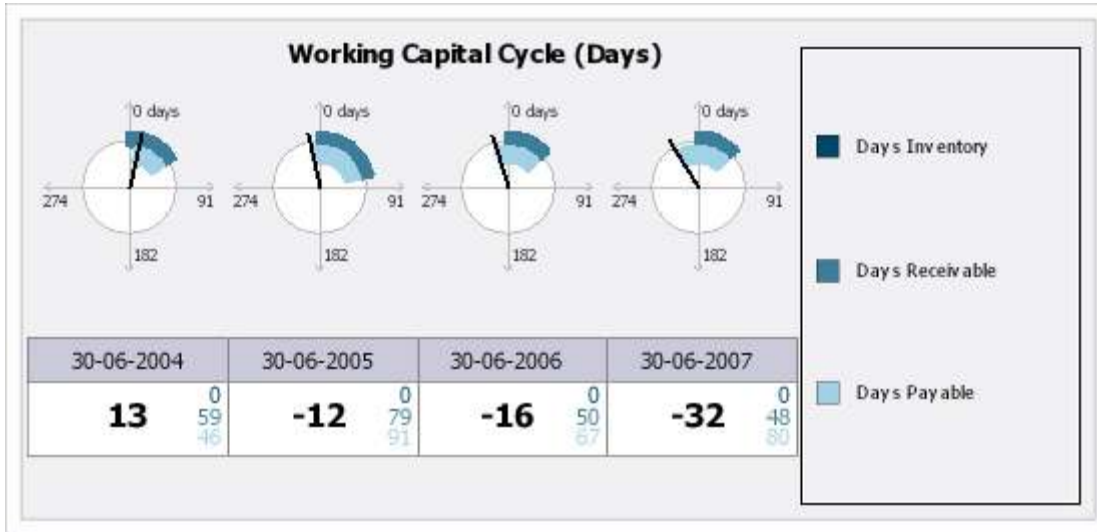
Service Industry focus on billing Work in Process as early as possible.

Tip: All businesses should assess the value of taking discounts versus paying creditors early.

### Strategy - What If?

<b>A decrease in Days Receivable</b>	<b>by 1 day</b>
Changes Working Capital %	by (0.27)
Changes ROCE %	by 0.26
Changes Cash After Operations	by 6,575
<b>A decrease in Days Inventory</b>	<b>by 1 day</b>
Changes Working Capital %	by (0.15)
Changes ROCE %	by 0.14
Changes Cash After Operations	by 3,677
<b>An increase in Days Payable</b>	<b>by 1 day</b>
Changes Working Capital %	by (0.15)
Changes ROCE %	by 0.14
Changes Cash After Operations	by 3,677

# Working Capital Cycle



## Financial Highlights 30-06-2007

Days Receivable	Down 2.08
Acc Receivable	Down 11,184
Days Inventory	Up 0.00
Inventory	Up 0
Days Payable	Up 13.04
Accounts Payable	Up 49,761
Working Capital Days	(31.50)
Working Capital	24,432
<b>Working Capital %</b>	<b>1.02</b>
<b>Gross Margin %</b>	<b>44.08</b>

## Focus Points

The higher the Working Capital Cycle, the more costly it is to fund.

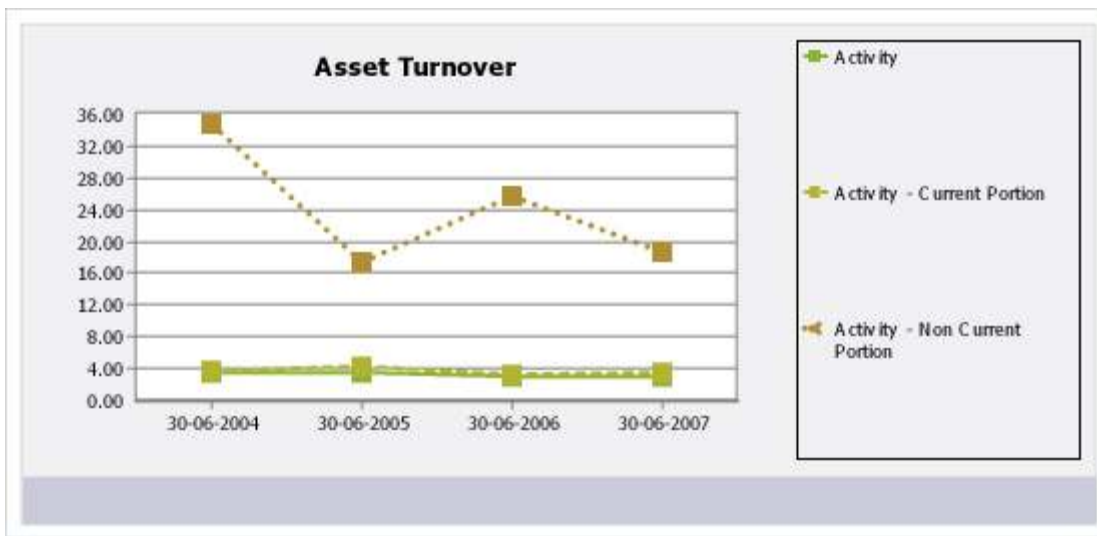
To minimise Working Capital Cycle: Ensure invoices are provided with a delivery or bill at the time work is performed; Utilise Inventory Management systems to control and minimise stock holdings; and constantly review supplier and customer terms of payment.

Working Capital % measures the investment a business has made in Working Capital for each unit of Revenue. Compare Working Capital % to Gross Margin % when a business increases Revenue. If Working Capital % is greater than Gross Margin %, for every additional unit of Revenue generated, cash will be required.

## Strategy - Goalseek

<b>To improve Working Capital %</b>	<b>to 0.92</b>
Change Days Receivable	to 48.02
Change Days Inventory	to (0.66)
Change Days Payable	to 80.56
Change COGS %	to 56.38
Change Price Change %	to (0.82)

# Asset Turnover



## Financial Highlights 30-06-2007

Activity	2.91
	Down 0.02
Average	3.20

Activity - Current	3.45
	Up 0.15
Average	3.74

Activity - Non Current	18.65
	Down 7.15
Average	24.19

Revenue	2,400,000
Net Operating Assets	824,637

## Focus Points

Activity is a primary measure of balance sheet efficiency as it indicates how quickly Net Operating Assets are turned over in a single period. Activity is thus a function of Revenue. The higher the Activity, the less Net Operating Assets are required to fund growth.

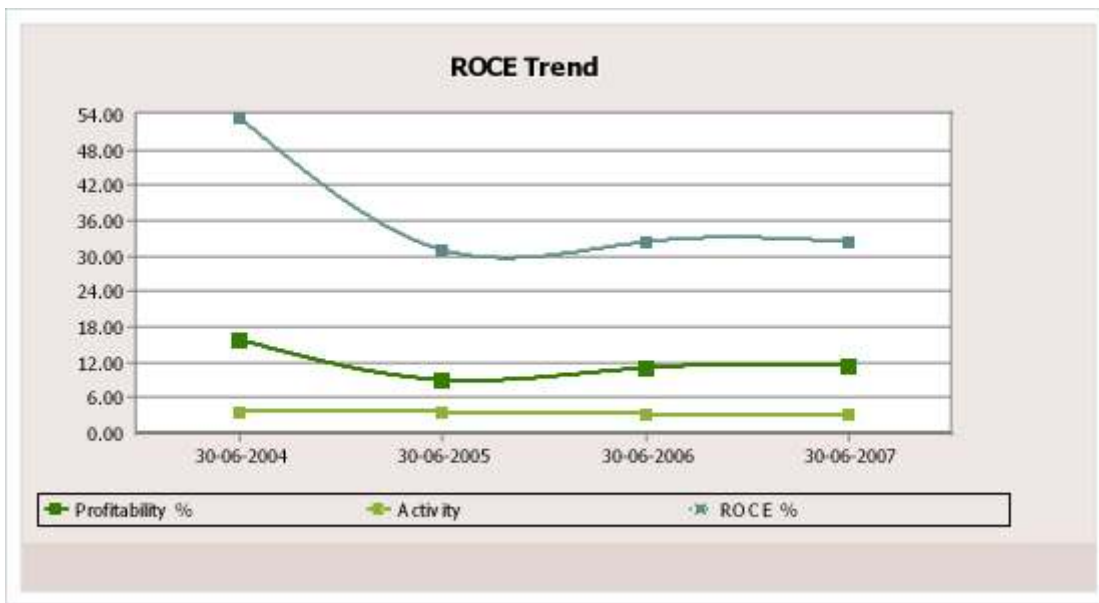
The relationship between the current and non current portions must also be understood. The current portion reflects the variable component and should not increase over time. Whereas, the non-current portion may increase over time, if the business invests in assets for the future.

Activity is a component of ROCE%, thus you should consider it when examining ROCE%.

## Strategy - Goalseek

<b>To improve Activity</b>	<b>to 3.20</b>
Change Price Change %	to 17.37
Change COGS %	to 70.14
Change Revenue Growth %	to 11.15
Change Days Receivable	to 36.98
Change Days Inventory	to (20.40)
Change Days Payable	to 100.22
Change Fixed Assets	to 53,686

# ROCE %



## Financial Highlights 30-06-2007

ROCE %	<b>32.14</b>
	Down 0.16
Average	37.16

Profitability %	<b>11.04</b>
	Up 0.01

Activity	<b>2.91</b>
	Down 0.02

Effect Interest %	<b>0.00</b>
	Up 0.00

The Return on Capital is **more than** the Cost of Borrowing in the current period.

## Focus Points

ROCE% is one of the Key Business Measures of business performance. ROCE% measures the return (EBIT) on the Capital Employed (Net Operating Assets) .

The higher ROCE% is, the better the business is performing. Manufactures should aim for a ROCE% greater than 20%, Distribution companies greater than 30% and Service businesses greater than 40%.

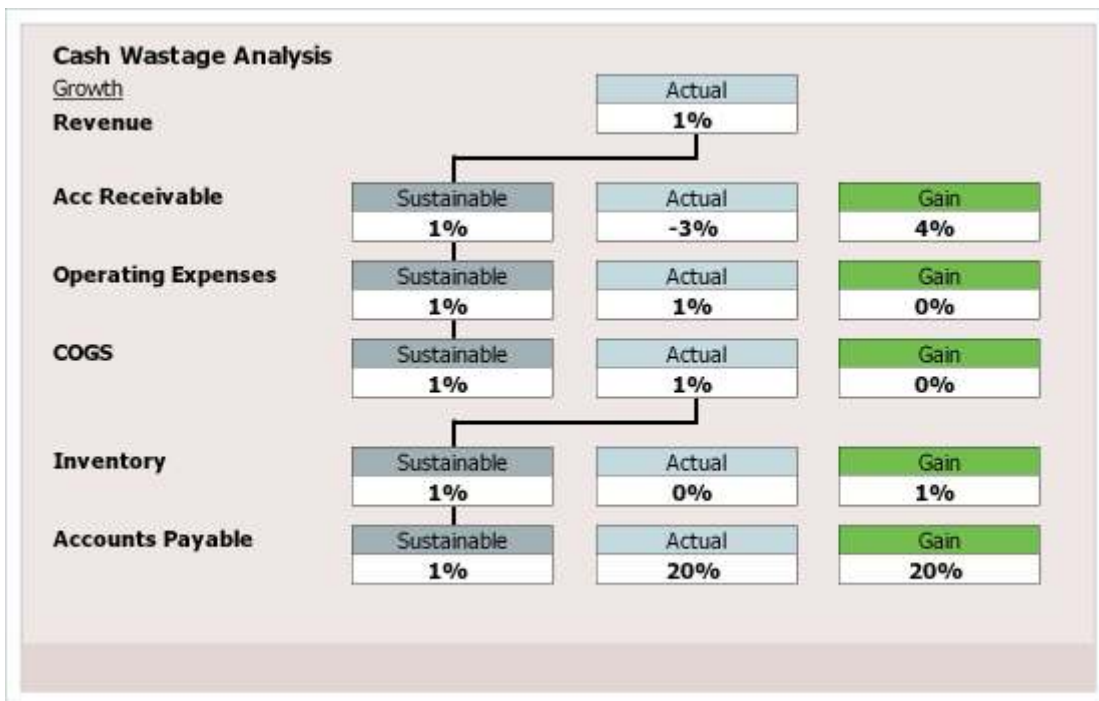
Profitability% is a measure of EBIT and Activity is a measure of NOA. Therefore, focus on the elements within EBIT and NOA to improve ROCE.

ROCE% can also be compared to the Effective Interest %, where the return on the capital must be more than the cost of borrowing.

## Strategy - Goalseek

<b>To improve ROCE %</b>	<b>to 35.35</b>
Change Price Change %	to 1.16
Change COGS %	to 54.72
Change Operating Expenses	to 759,500
Change Revenue Growth %	to 10.91
Change Days Receivable	to 36.99
Change Days Inventory	to (20.39)
Change Days Payable	to 100.28
Change Fixed Assets	to 53,718

# Cash Wastage



## Financial Highlights 30-06-2007

Actual Cash Flow 45,115

Total Cash Waste 62,745

**Sustainable Cash Flow (17,630)**

## Focus Points

Cash Wastage indicates how the Business has managed its growth.

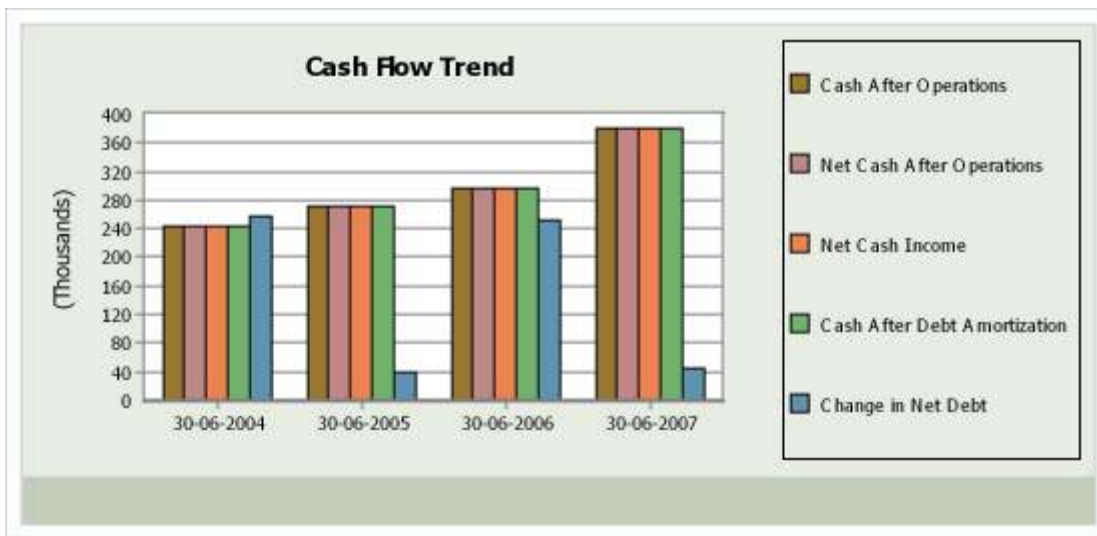
Growth in Accounts Receivable, COGS and Operating Expenses are compared to Revenue Growth, where growth above Revenue Growth is considered Cash Wastage or Unsustainable Growth. If growth in Inventory is more than COGS growth it is considered Waste. Whilst a growth of Accounts Payable less than COGS is also considered Waste.

Total Waste or Gain is subtracted from Change in Net Debt to determine the level of cash flow that is Sustainable by the business.

## Strategy - What If?

- A decrease in Days Receivable by 1 day**  
Changes Total Cash Waste by (6,575)
- A decrease in Operating Expenses % by 1**  
Changes Total Cash Waste by (24,000)
- A decrease in COGS % by 1**  
Changes Total Cash Waste by (23,143)
- A decrease in Days Inventory by 1 day**  
Changes Total Cash Waste by (3,677)
- An increase in Days Payable by 1 day**  
Changes Total Cash Waste by (3,677)

# Cash Flow



## Financial Highlights 30-06-2007

Cash After Operations	331,445	Down 24,899
Net Cash After Operations	322,137	Down 33,272
Net Cash Income	322,137	Down 33,272
CADA	322,137	Down 33,272

## Focus Points

A business has five components from a cash flow perspective:

1. Operating - measured by Cash After Operations
2. Tax - measured by Net Cash After Operations
3. Financing (interest paid & current commitments) - measured by Net Cash Income & CADA
4. Asset Purchases - measured by Net Cash Income After Assets
5. Shareholder Funding - also measured by Net Cash Income After Equity

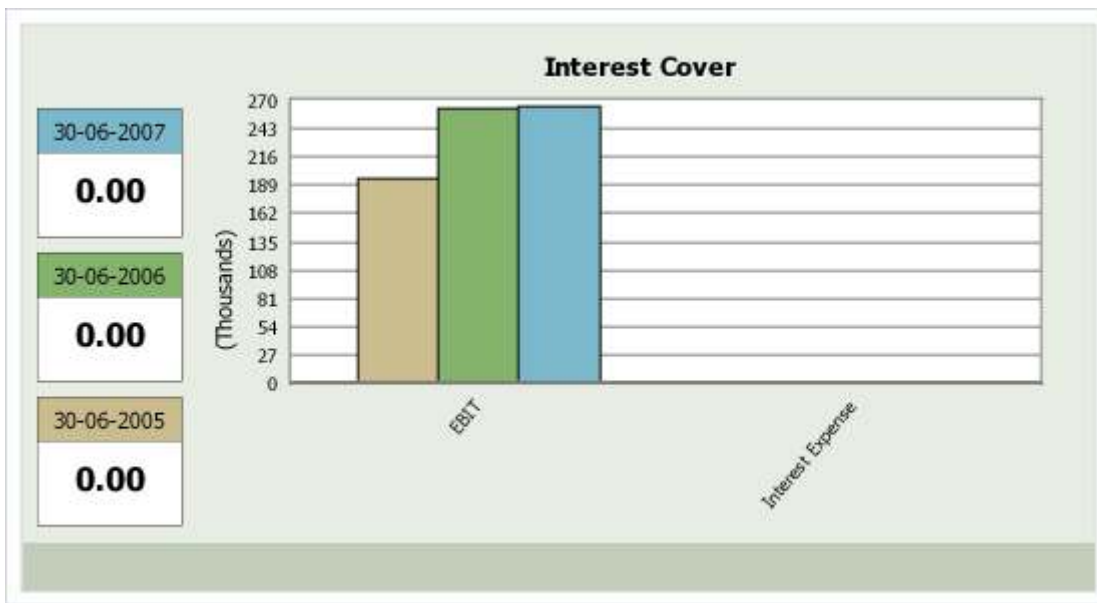
Tips:

Management can only control Cash After Operations and hence it is an important measure. Tax, Interest, Dividends & Debt Repayments must be paid from Cash After Operations. If Fixed Asset purchases are made, sufficient CADA must be generated.

## Strategy - Goalseek

<b>To improve Cash After Operations</b>	<b>to 381,162</b>
Change Price Change %	to 2.39
Change COGS %	to 53.26
Change Operating Expenses	to 736,283
Change Revenue Growth %	to 21.00
Change Days Receivable	to 40.83
Change Days Inventory	to (13.52)
Change Days Payable	to 93.42

# Interest Cover



## Financial Highlights 30-06-2007

EBIT	265,000 Up 2,278
Interest Expense	0 Up 0
<b>Interest Cover</b>	<b>0.00</b> Up 0.00

Interest Commitments **cannot be met** from Operational Profit in the current period.

## Focus Points

Banks look at this ratio to determine whether a business has the ability to generate operating profits sufficient to cover immediate banking commitments.

Businesses should aim to maximise Interest Cover.

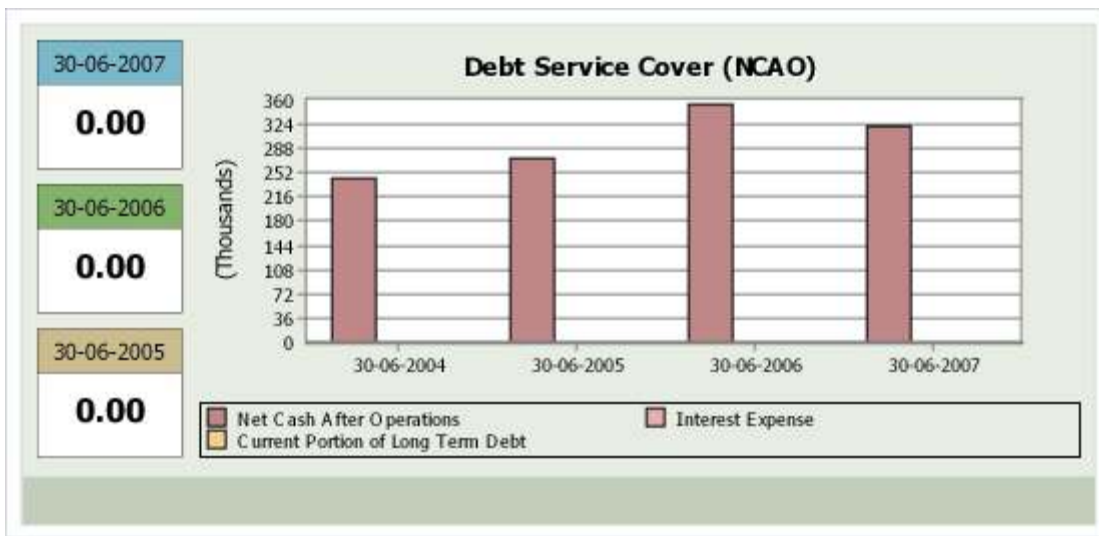
A minimum interest Cover of 1 is required to ensure that the business can meet its immediate interest commitments.

Aim for an Interest Cover greater than 2, to provide a margin of safety for prudent financial management.

## Strategy - Goalseek

<b>To improve Interest Cover</b>	<b>to 2.00</b>
Change Price Change %	to 0.00
Change COGS %	to 55.92
Change Operating Expenses	to 786,000
Change Revenue Growth %	to 0.77
Change Days Receivable	to 48.39
Change Days Inventory	to 0.00
Change Days Payable	to 79.89
Change Fixed Assets	to 128,676

# Debt Service Cover



## Financial Highlights 30-06-2007

Net Cash After Operations 322,137

Total Commitment to Bank 0

**Debt Service Cover 0.00**

**Total Bank Commitments cannot be met from NCAO in the current period.**

## Focus Points

Debt Service Cover shows the ability of the business to fund its commitments to the bank. Commitments to the bank are defined as Interest and the Current Portion of Long Term Debt.

Net Cash After Operations (NCAO) is the Operating cash flow after tax. Businesses need to ensure they generate enough NCAO to cover their Debt. On this basis, if this ratio is under 1 it indicates that there is insufficient cash to meet commitments to the bank.

Businesses have very little control over interest and the ability to retire debt, and thus should focus on managing NCAO via drivers such as Price, Days Receivable, Days Payable and Fixed Assets.

## Strategy - What If?

- An increase in Revenue Growth % by 1%**  
Changes Debt Service Cover to 0.00
- An increase in Price Change % by 1%**  
Changes Debt Service Cover to 0.00
- A decrease in COGS % by 1%**  
Changes Debt Service Cover to 0.00
- A decrease in Operating Expenses % by 1%**  
Changes Debt Service Cover to 0.00
- A decrease in Days Receivable by 1 day**  
Changes Debt Service Cover to 0.00
- A decrease in Days Inventory by 1 day**  
Changes Debt Service Cover to 0.00
- An increase in Days Payable by 1 day**  
Changes Debt Service Cover to 0.00

## Glossary

<b>Activity</b>	Revenue/Net Operating Assets
<b>Activity - Current Operating Assets</b>	Revenue/Current Operating Assets
<b>Activity - Non Current Operating Assets</b>	Revenue/Non-Current Operating Assets
<b>Asset Turnover</b>	This is the analysis of balance sheet efficiency.
<b>Borrowed Funds</b>	Short Term Debt + Long Term Debt
<b>Cash after Debt Amortization (CADA)</b>	Net Cash After Operations - Financing Costs - Current Portion of Long Term Debt
<b>Cash After Operations</b>	Cash From Sales - Cash Production Costs - Cash Operating Costs
<b>Cash From Sales</b>	Revenue + Change in Accounts Receivables
<b>Cash Production Costs</b>	COGS (excluding Depreciation) + Change in Inventories + Change in Accounts Payable
<b>Cash Operating Costs</b>	Operating Expenses (excluding Depreciation and Amortization) + Other Operating Expenses + Change in Other CA + Change in Other NCA + Change in Other CL + Change in Other NCL
<b>Cash Wastage</b>	This concept shows how effectively a business has managed its growth. A Waste is where the business has performed inadequately, where a Gain demonstrates the business has managed its growth adequately.
<b>Cost of Goods Sold (COGS)</b>	These are costs that are incurred directly in the production of Revenue.
<b>Current Operating Assets (COA)</b>	Current Assets - Current Liabilities (excluding Short Term Debt)
<b>Days Inventory</b>	Inventory / COGS x Number of Days in Period
<b>Days Payable</b>	Accounts Payable / COGS x Number of Days in Period
<b>Days Receivable</b>	Accounts Receivable / Revenue x Number of Days Period
<b>Debt Service Cover (NCAO)</b>	NCAO / (Interest Paid + Current Portion LTD)
<b>Earnings Before Interest and Tax (EBIT)</b>	Revenue - COGS - Operating Expenses - Other Operating Expenses
<b>Effective Interest %</b>	Annualised Interest Expense / (Previous Borrowed Funds + Current Borrowed Funds)/2 x 100
<b>Effective Tax %</b>	Tax / Net Profit x 100
<b>Fixed Assets</b>	Fixed Assets are items held by the business for more than one year. These items would usually be used in the day to day operations of the business. Examples of Fixed Assets would be land and buildings, plant & equipment, motor vehicles, office equipment and furniture and fixtures.
<b>Gross Margin</b>	Revenue - COGS
<b>Interest Cover</b>	EBIT / Interest Expense
<b>Interest Expense</b>	This is the financing cost associated with the businesses Long Term and Short Term Debt.
<b>Net Cash After Operations (NCAO)</b>	Cash After Operations - Taxes Paid
<b>Net Cash Income After Equity (NCIE)</b>	Cash after Debt Amortization - Change in Current Assets - Change in Shareholders Funds
<b>Net Cash Income</b>	Net Cash After Operations - Financing Costs
<b>Net Operating Assets (NOA)</b>	Current Assets + Non Current Assets - Current Liabs (excluding Short Term Debt) - Non Current Liabs (excluding Long Term Debt)
<b>Net Profit %</b>	Net Profit / Revenue x 100
<b>Non Current Operating Assets (NCOA)</b>	Non Current Assets - Non Current Liabilities (excluding Long Term Debt)
<b>Operating Expenses</b>	Operating Exps are the costs that are incurred in the day to day operations of a business. These costs may include administration, marketing, selling or distribution costs.
<b>Price</b>	Is a driver which increases or decreases Revenue without impacting COGS or Operating Exps.
<b>Profitability %</b>	EBIT / Revenue x 100
<b>Revenue</b>	Revenue is the entity's primary source of income.

**Retained Earnings %**

Retained Earnings / Revenue x 100

**ROCE %**

EBIT / Net Operating Assets x 100

**Sustainable Cash Flow**

Net Change in Borrowings - Total Waste or Gain. It is the cash flow the business could have generated if they had not experienced the Waste or Gain.

**Volume**

Is a driver indicating the change in the number of units sold, thereby impacting Revenue, and also COGS and Operating Exps.

**Working Capital %**

[(Account Receivable + Inventory - Account Payable) / Revenue x 100] x 365 / Number of Days Period

**Working Capital Cycle**

Days Inventory + Days Receivable - Days Payable