Performance Report

Vanderlay Coffee Roasters
Jun 2018

Executive Summary

Overview

Well done team. The results for this month are better than planned. Revenues for the current period of $569,621 narrowly missed target of $641,852. Cost of Sales was $149,835. However, profitability margins improved due to cost savings and efficiency gains. Notably the production facility reduced electrical consumption by twelve percent per roasted kilogram, while water consumption was reduced by twenty-six percent per kilo.

Other efficiency indicators which track wastage and use of biodegradable packaging also recorded improvements. Wages-to-Sales (16.4%) and Rent-to-Sales (6.4%) margins remained steady.

This month welcomes the commencement of bike services to deliver coffee to doorsteps across three Sydney suburbs. New sales training initiatives are planned for next month, to promote these new services.

Actions

- Review rolling 12 month plan and forecast
- Review sales order pipeline
- Update shareholders agreements
- Award tender contracts

Observations

ACTIVITY

Activity Ratio 3.19 times (Last month 3.15 times)

Positive trend upwards. Strategies to improve the activity ratio include seeking ways to optimise the balance sheet, ie. by reducing the investment in working capital, selling-off any unused assets or by increasing sales using the same asset base.

PROFITABILITY

Profitability Ratio 14.47% (Last month 13.16%)

Positive trend upwards. Strategies to improve profitability include: increasing price, increasing sales volume, reducing cost of sales and reducing operating expenses.

EFFICIENCY

Return on Capital Employed 46.11% (Last month 41.48%)

Positive trend upwards. A higher ROCE% is favourable, indicating that the business generates more earnings per $1 of capital employed.

CASH FLOW

Free Cash Flow $327,288

Free Cash Flow is positive. After paying its operating expenses and investing for future growth (capital expenditures) the business has generated cash. This cash is available to be paid back to the suppliers of capital.

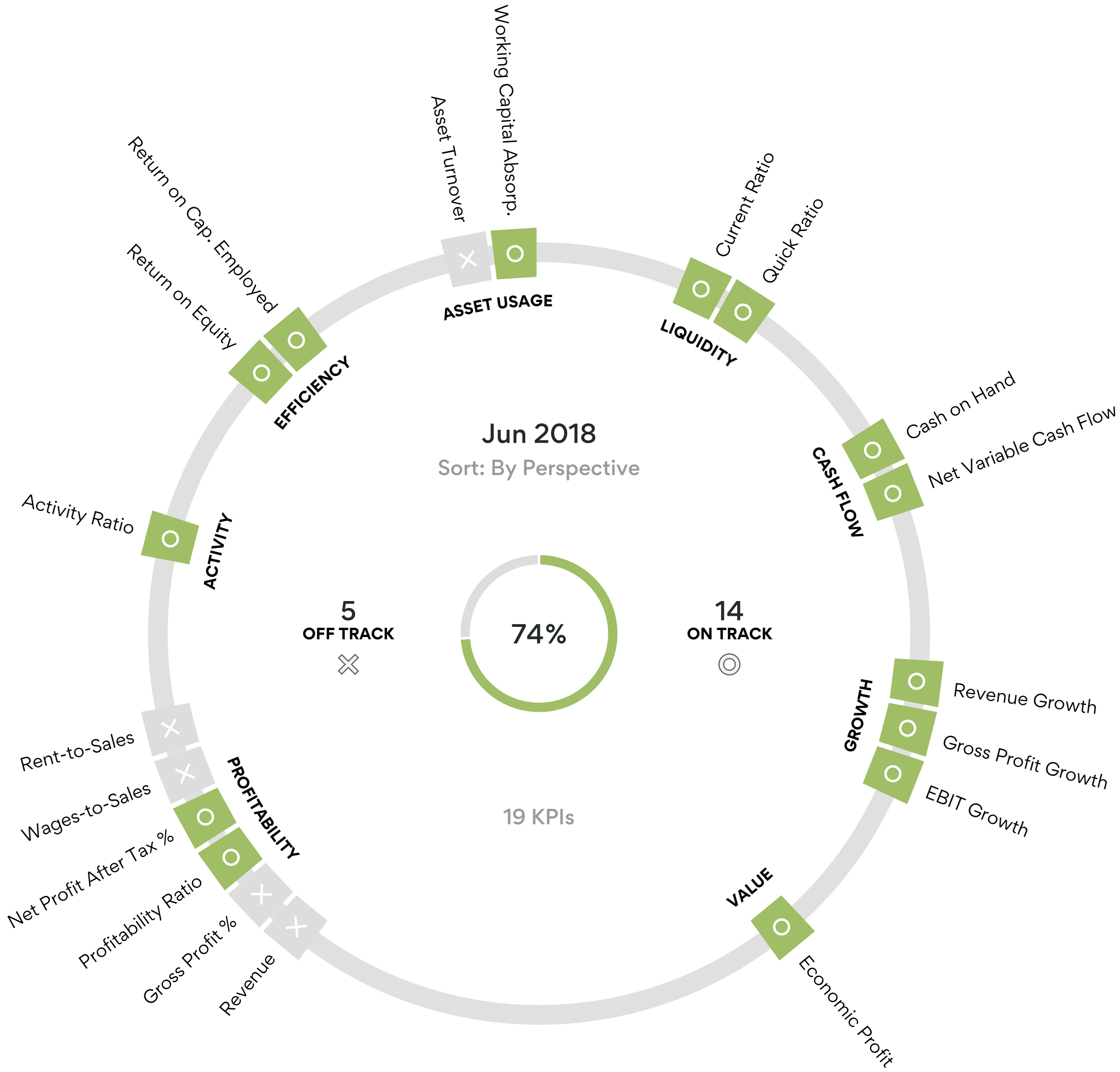
KPI Results

	RESULT	TARGET		TREND	IMPORTANCE
A **PROFITABILITY**	**JUN 2018**			**vs MAY 2018**	
Total Revenue	$569,621	$641,852	✗	▲ 5.5%	Critical
Gross Profit Margin	73.7%	73.78%	✗	▲ 2.64%	High
Profitability Ratio	14.47%	14.18%	✓	▲ 1.31%	Critical
Net Profit After Tax Margin	14.07%	13.76%	✓	▲ 1.02%	Medium
Wages-to-Sales *	16.4%	15.7%	✗	▼ -0.6%	Medium
Rent-to-Sales *	6.4%	6.4%	✗	▼ 0%	Low
B **ACTIVITY**					
Activity Ratio	3.19 times	2.00 times	✓	▲ 0.04 times	High
C **EFFICIENCY**					
Return on Equity	66.43%	15%	✓	▲ 7.05%	High
Return on Capital Employed	46.11%	12.5%	✓	▲ 4.63%	Critical
D **ASSET USAGE**					
Asset Turnover	2.25 times	5.00 times	✗	▼ -0.14 times	Medium
Working Capital Absorption *	1.7%	25%	✓	▼ -1.47%	Low
E **LIQUIDITY**					
Current Ratio	2.42:1	2.00:1	✓	▼ -0.31:1	Medium
Quick Ratio	1.74:1	1.00:1	✓	▼ -0.11:1	Medium
F **CASH FLOW**					
Cash on Hand	$1,599,532	$10,000	✓	▲ 33.7%	Medium
Net Variable Cash Flow	71.91%	0%	✓	▲ 4.12%	Medium
G **GROWTH**					
Revenue Growth	5.45%	0.25%	✓	▲ 6.57%	Critical
Gross Profit Growth	9.37%	0.25%	✓	▲ 13.2%	Medium
EBIT Growth	15.93%	-26.14%	✓	▲ 0.54%	High
H **VALUE**					
Economic Profit	$816,792	$0	✓	▲ 17.6%	Low

* For this metric, a result below target is favourable

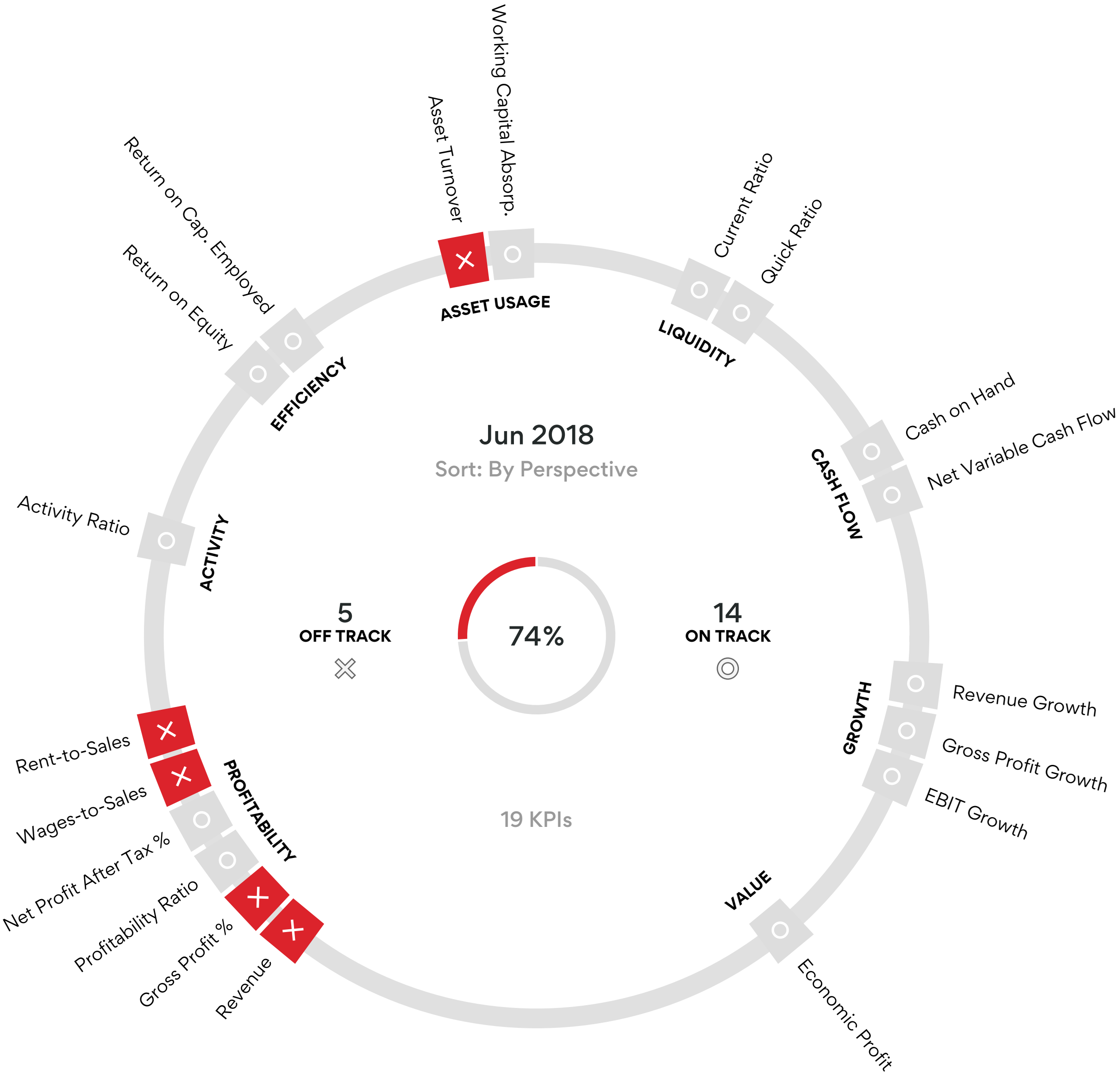
On-Track KPIs

This chart shows KPIs grouped into performance perspectives.



Off-Track KPIs

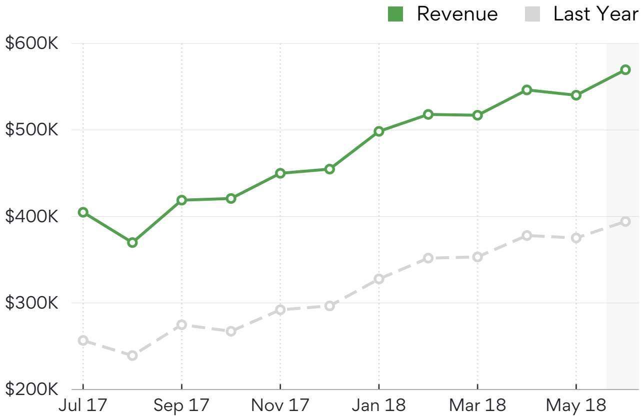
This chart shows KPIs sorted by degree of importance. KPIs are classified as either low, medium, high or critical importance.



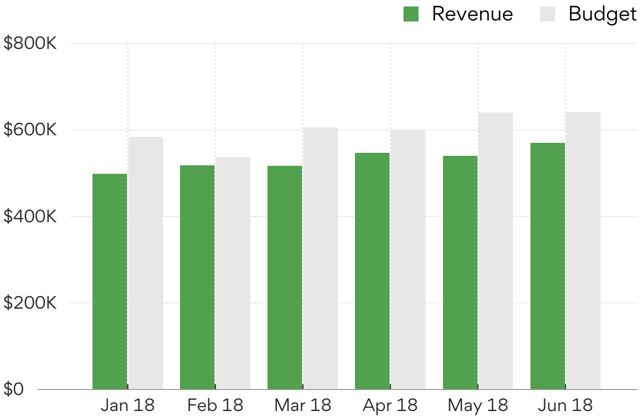
Revenue Analysis

TOTAL REVENUE	LAST MONTH (Jun 17)	TARGET
$569,621	$394,242	$641,852

This year vs last year

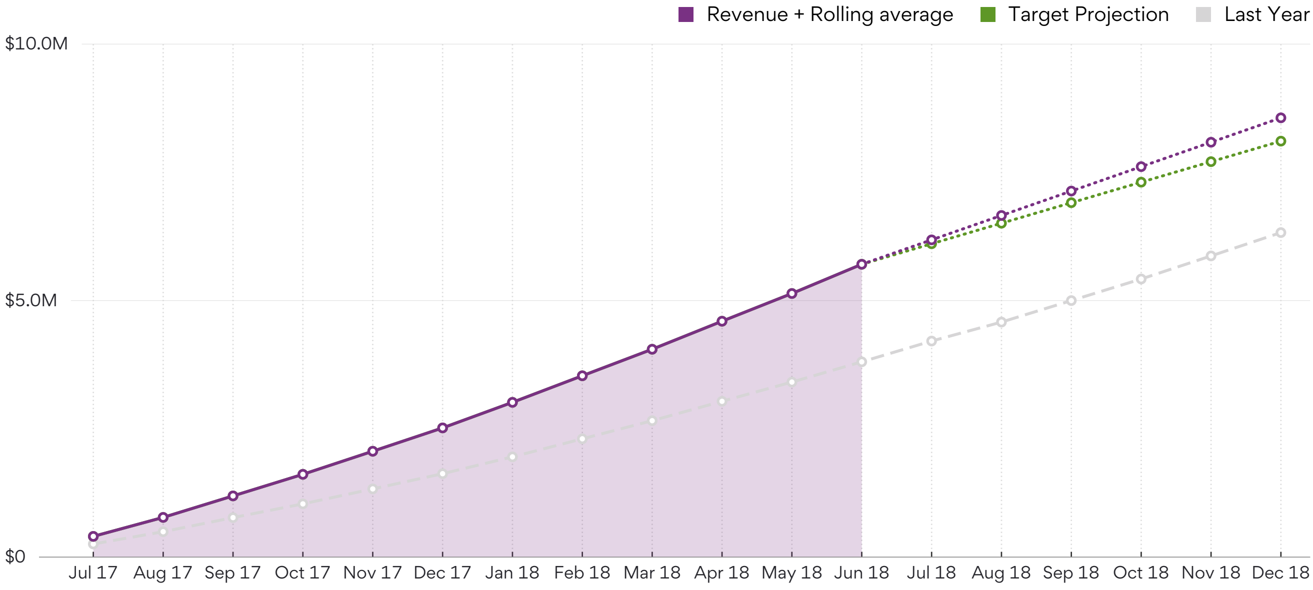


Last 6 months vs Budget



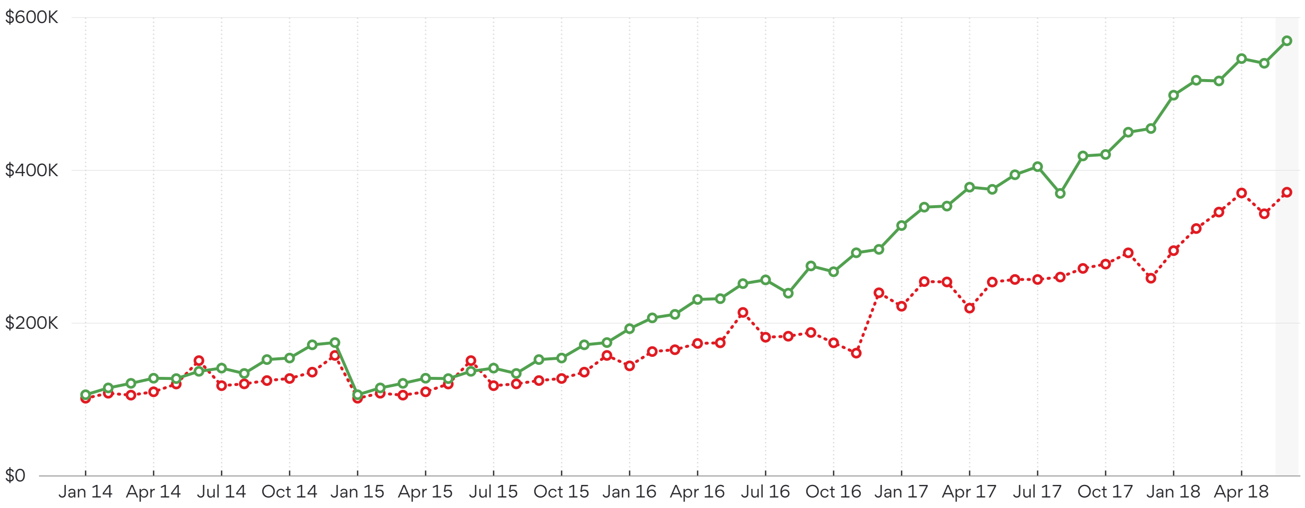
YTD REVENUE (2017/2018)	YTD TARGET (2017/2018)	LAST YEAR (2016/2017)
$5,708,497	$6,792,902 Target	$3,807,036

Cumulative Revenue

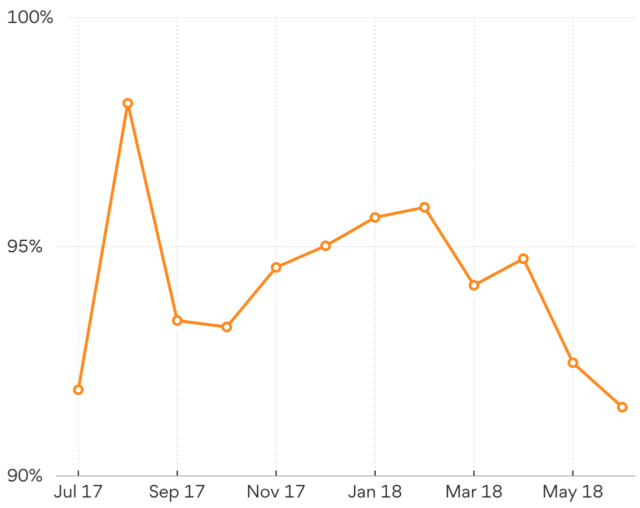


Revenue & Expenses

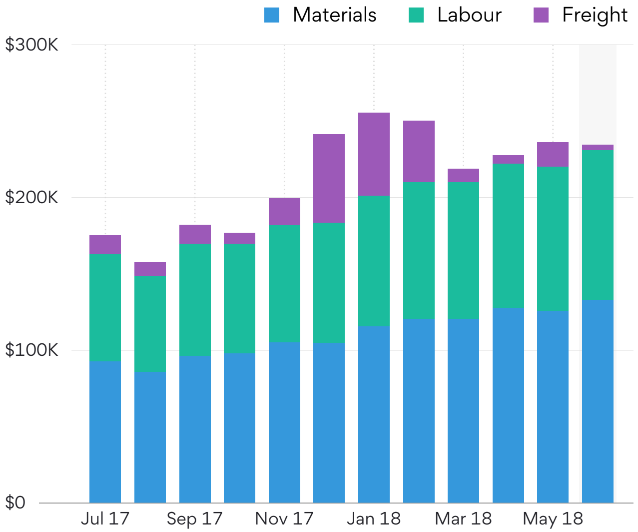
Revenue & Expenses for all time



Expense-to-Revenue Ratio



Cost of Sales



Cost of Sales breakdown

Materials	$132,615
Commissions	$14,108
Freight	$3,112

Top 10 Expenses

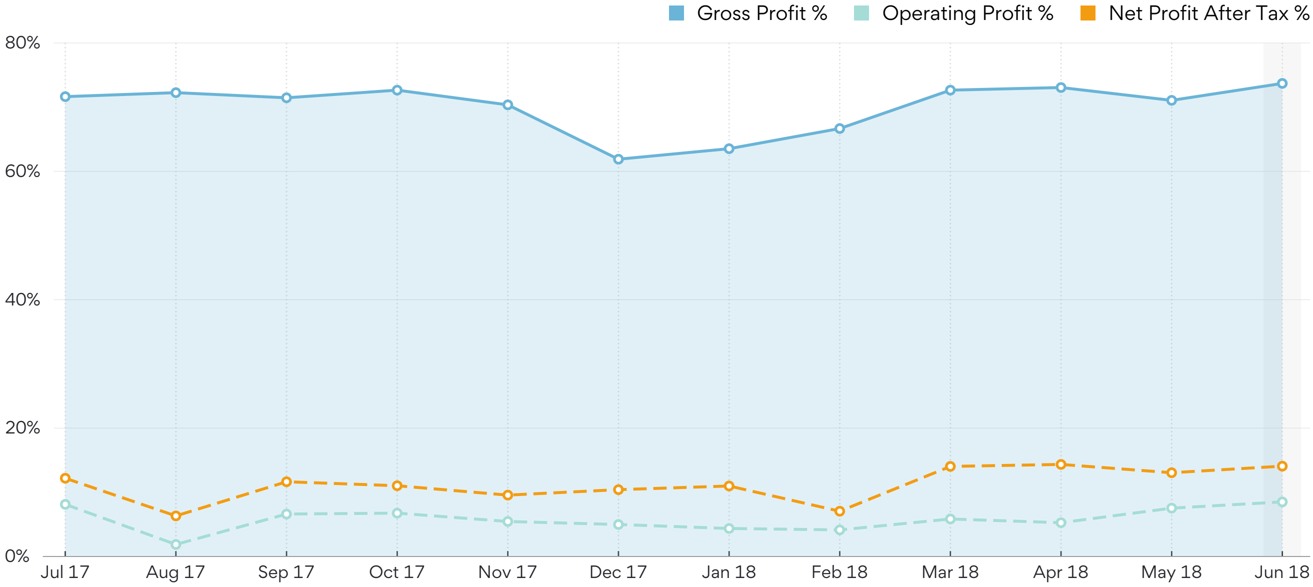
Labour	$98,756
Salaries & Wages	$93,118
Income Tax Expense	$39,530
Rent	$36,681
Entertainment	$13,458
Advertising & Promotions	$13,295
Contractors	$13,263
General Expenses	$9,281
Telephone & Internet	$9,255
Consulting Fees	$9,047

Profitability Margins

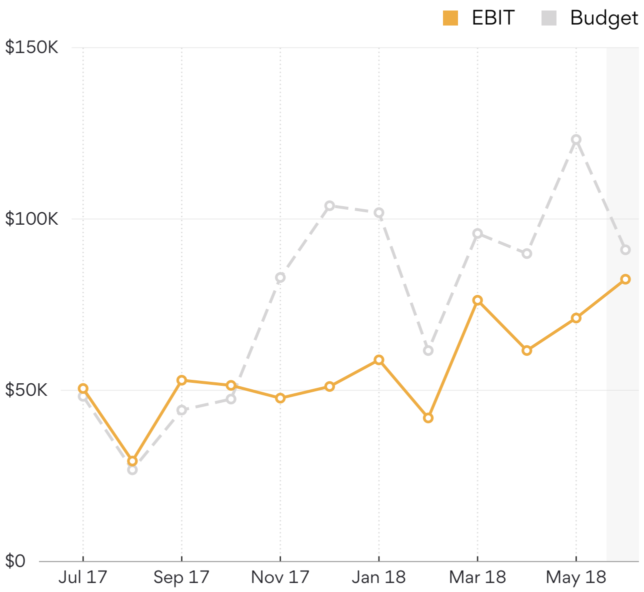
Positive trend upwards for the past 4 months. Much of this improvement in profit is a result of top line growth. Revenues for this period increased by -1.12% and Operating Profit increased by 19.05%. This is a positive recovery a December and January period, where sales dropped due to seasonality. Positive trend upwards for the past 4 months. Much of this improvement in profit is a result of top line growth.

	Jun 2018	% of Revenue	Mar 2018	Apr 2018	May 2018
Gross Profit	$419,786	73.7%	$375,614	$399,126	$383,838
Operating Profit	$48,403	8.5%	$30,215	$28,749	$40,658
Earnings Before Interest & Tax	$82,420	14.5%	$76,278	$61,614	$71,097
Earnings After Tax	$80,157	14.1%	$72,559	$78,348	$70,482

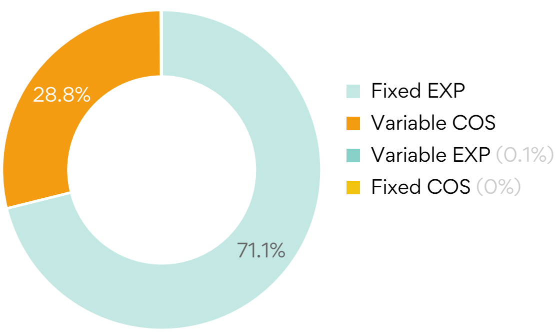
% Margins



EBIT vs Budget



Expenditure Mix



Profitability

REVENUE

$569,621

▲ 5.5% from last month

A measure of the total amount of money received by the company for goods sold or services provided.

EXPENSES TO REVENUE RATIO

91.5%

▼ -0.97% from last month

A measure of how efficiently the business is conducting its operations.

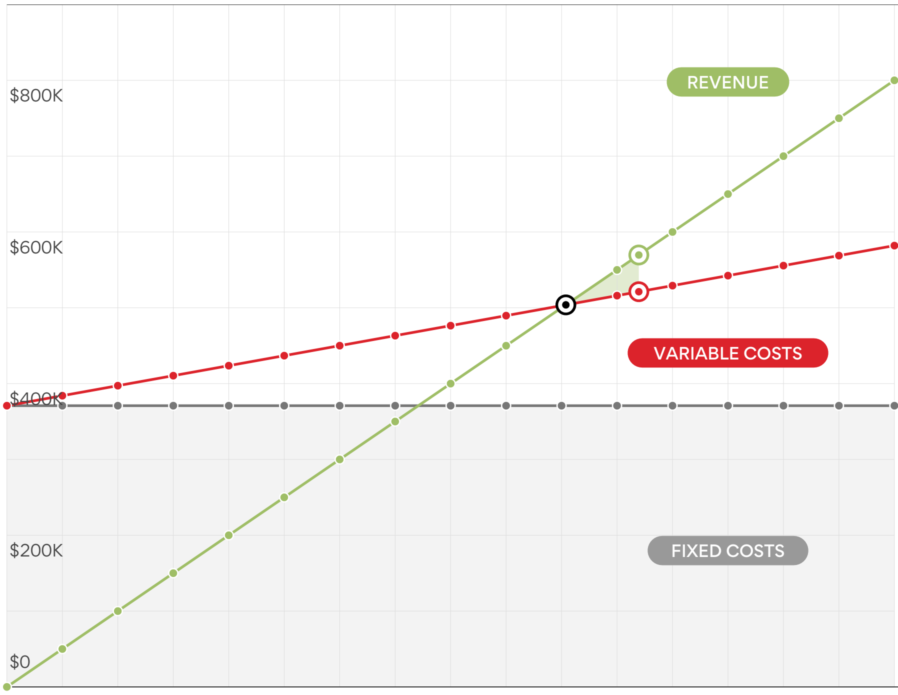
MARGIN OF SAFETY

$65,758

▲ 14.8% from last month

The breakeven safety margin represents the gap between the actual revenue level and the breakeven point.

Profitability can be further improved by improving price, volume, cost of sales and operating expense management.



REVENUE

$569,621

TOTAL COSTS

$521,218

BREAKEVEN POINT

$503,863

MARGIN OF SAFETY

$65,758

VARIABLE COSTS

$0.26 PER $1 OF REVENUE

FIXED COSTS

$370,883

Cash Flow

OPERATING CASH FLOW

$295,612

Operating cash flow is simply the cash generated by the operating activities of the business. Operating activities include the production, sales and delivery of the company's product and/or services as well as collecting payment from its customers and making payments to suppliers.

FREE CASH FLOW

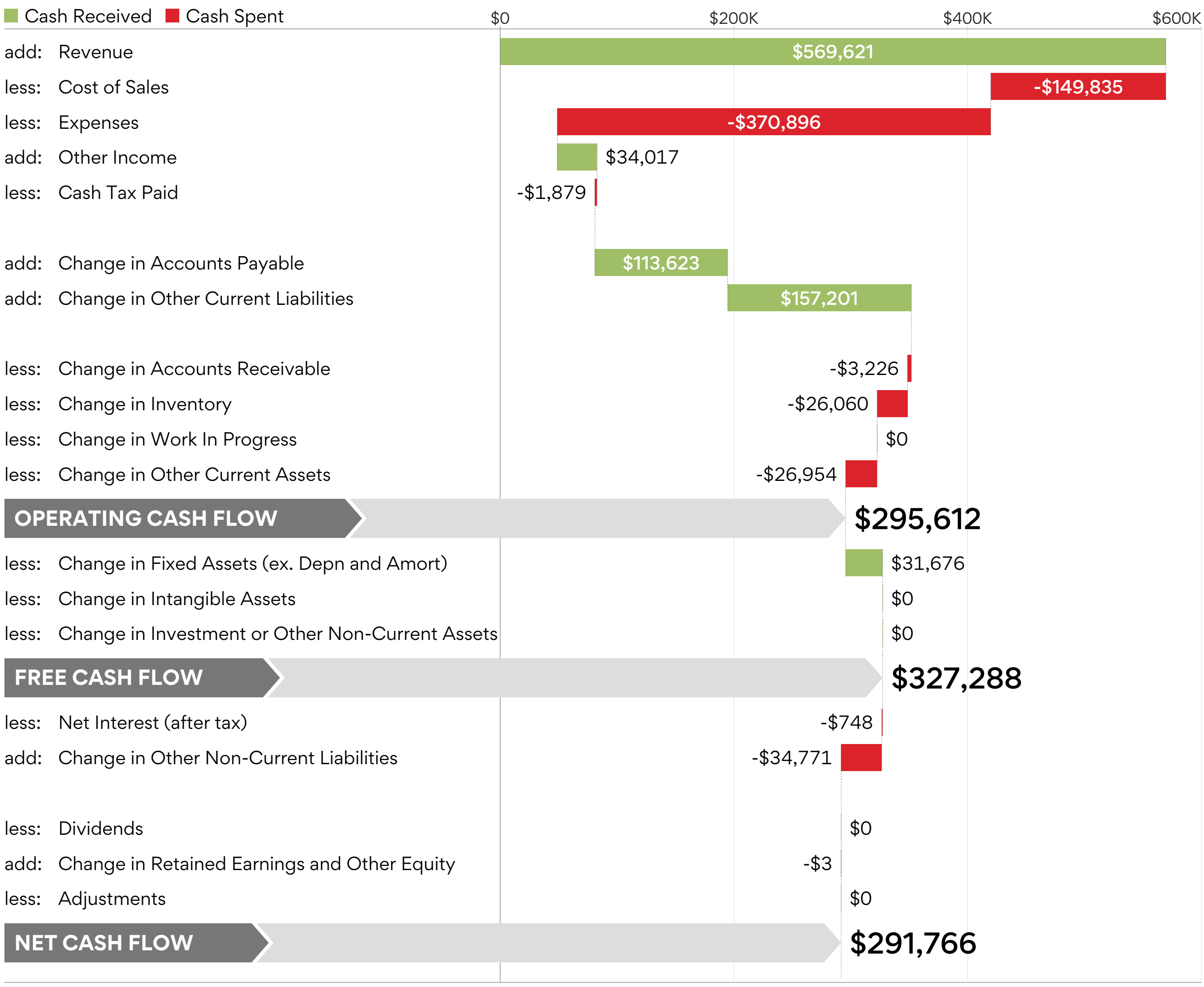
$327,288

Free cash flow is the cash generated by the business, after paying its expenses and investing for future growth. It is the cash left after subtracting capital expenditure from operating cash flow. The term "free cash flow" is used because this cash is free to be paid back to the suppliers of capital.

NET CASH FLOW

$291,766

Net cash flow is the cash left after subtracting expenditures from financing activities from the free cash flow. This includes the cash impact from financing activities. Financing activities include the inflow of cash from investors such as banks or shareholders, as well as the outflow of cash to shareholders as dividends.



Net Cash Flow can also be calculated as:

Change in Cash on Hand $403,446 (Open: $1,196,086, Close: $1,599,532)

— **Change in Debt** $106,467 (Open: $505,925, Close: $612,392)

Actual vs Budget

PROFIT & LOSS	Jun 2018	Budget	Budget Variance ($)	Budget Variance (%)
Revenue				
Sales	$569,621	$641,852	-$72,231	-11.25%
Cost of Sales				
Materials	$132,615	$148,323	-$15,708	-10.59%
Freight	$3,112	$4,220	-$1,108	-26.26%
Commissions	$14,108	$15,779	-$1,671	-10.59%
Total Cost of Sales	**$149,835**	**$168,322**	**-$18,487**	**-10.98%**
Gross Profit	**$419,786**	**$473,530**	**-$53,744**	**-11.35%**
Expenses				
Labour	$98,756	$110,454	-$11,698	-10.59%
Accounting & Legal	$1,333	$1,333	$0	0.00%
Advertising & Promotions	$13,295	$21,247	-$7,952	-37.43%
Bank Fees	$500	$213	$287	134.74%
Charitable Donations	$1,406	$0	$1,406	–
Consulting Fees	$9,047	$11,738	-$2,691	-22.93%
Contractors	$13,263	$22,509	-$9,246	-41.08%
Depreciation & Amortisation	$487	$346	$141	40.75%
Entertainment	$13,458	$15,135	-$1,677	-11.08%
General Expenses	$9,281	$16,403	-$7,122	-43.42%
Income Tax Expense	$39,530	$5,603	$33,927	605.51%
Insurance	$5,795	$6,606	-$811	-12.28%
Lighting & Power	$265	$800	-$535	-66.88%
Loan Interest	$136	$0	$136	–
Marketing	$6,195	$14,120	-$7,925	-56.13%
Online Advertising	$1,753	$8,417	-$6,664	-79.17%
Postage	$67	$67	$0	0.00%
Print Advertising	$146	$800	-$654	-81.75%
Printing & Stationery	$159	$160	-$1	-0.63%
Rent	$36,681	$41,026	-$4,345	-10.59%
Repairs & Maintenance	$278	$1,600	-$1,322	-82.63%
Salaries & Wages	$93,118	$100,509	-$7,391	-7.35%
Software	$471	$0	$471	–
Telephone & Internet	$9,255	$1,003	$8,252	822.73%
Training & Education	$6,735	$4,477	$2,258	50.44%
Travel & Accommodation	$8,660	$11,567	-$2,907	-25.13%
Utilities	$471	$921	-$450	-48.86%
Website	$759	$2,733	-$1,974	-72.23%
Worker's Compensation	$83	$0	$83	–
Total Expenses	**$371,383**	**$399,787**	**-$28,404**	**-7.10%**
Operating Profit	**$48,403**	**$73,743**	**-$25,340**	**-34.36%**
Other Income				
Other Revenue	$34,017	$17,267	$16,750	97.01%
Earnings Before Interest & Tax	**$82,420**	**$91,010**	**-$8,590**	**-9.44%**
Interest Income				
Interest Income	-$1,068	$1,284	-$2,352	-183.18%
Earnings Before Tax	**$81,352**	**$92,294**	**-$10,942**	**-11.86%**

	Jun 2018	Budget	Budget Variance ($)	Budget Variance (%)
Tax Expenses				
Payroll Tax	$452	$3,328	-$2,876	-86.42%
Tax Expense	$743	$667	$76	11.39%
Earnings After Tax	**$80,157**	**$88,299**	**-$8,142**	**-9.22%**
Retained Income	**$80,157**	**$88,299**	**-$8,142**	**-9.22%**

Summary Balance Sheet

BALANCE SHEET	Jun 2018	May 2018	Variance $	Variance %
ASSETS				
Cash & Equivalents	$1,599,532	$1,196,086	$403,446	33.73%
Accounts Receivable	$148,191	$144,965	$3,226	2.23%
Inventory	$351,671	$325,611	$26,060	8.00%
Work in Progress	$0	$0	$0	–
Other Current Assets	$339,540	$312,586	$26,954	8.62%
Total Current Assets	**$2,438,934**	**$1,979,248**	**$459,686**	**23.23%**
Fixed Assets	$630,774	$662,937	-$32,163	-4.85%
Intangible Assets	$3,867	$3,867	$0	0.00%
Investment or Other Non-Current ...	$11,994	$11,994	$0	0.00%
Total Non-Current Assets	**$646,635**	**$678,798**	**-$32,163**	**-4.74%**
Total Assets	**$3,085,569**	**$2,658,046**	**$427,523**	**16.08%**
LIABILITIES				
Short Term Debt	$95,498	$85,427	$10,071	11.79%
Accounts Payable	$382,297	$268,674	$113,623	42.29%
Tax Liability	$0	$0	$0	–
Other Current Liabilities	$528,351	$371,150	$157,201	42.36%
Total Current Liabilities	**$1,006,146**	**$725,251**	**$280,895**	**38.73%**
Long Term Debt	$516,894	$420,498	$96,396	22.92%
Deferred Taxes	$54,388	$54,752	-$364	-0.66%
Other Non-Current Liabilities	-$110,421	-$75,650	-$34,771	-45.96%
Total Non-Current Liabilities	**$460,861**	**$399,600**	**$61,261**	**15.33%**
Total Liabilities	**$1,467,007**	**$1,124,851**	**$342,156**	**30.42%**
EQUITY				
Retained Earnings	$1,007,769	$1,007,769	$0	0.00%
Current Earnings	$353,819	$271,910	$81,909	30.12%
Other Equity	$186,638	$188,393	-$1,755	-0.93%
Total Equity	**$1,548,226**	**$1,468,072**	**$80,154**	**5.46%**
Total Liabilities & Equity	**$3,015,233**	**$2,592,923**	**$422,310**	**16.29%**

KPIs Explained

Activity Ratio 3.19 times

A measure of the efficiency or effectiveness with which the business manages its resources or assets. This measure indicates the speed with which Net Operating Assets (Equity + Debt) are converted or turned into sales. This can be improved by optimising balance sheet efficiency, ie. by reducing the investment in working capital, selling-off any unused assets or by seeking ways to maximise the use of assets. For this period, the activity ratio has exceeded the target of 2.00 times.

Activity Ratio = Annualised Revenue / Total Invested Capital

Asset Turnover 2.25 times

A measure of how effectively the business has used its assets to generate revenue. The business makes $225.00 of sales for every $100 of its asset investment. The higher the number the better the turnover. Ways to improve this metric include increasing sales using the same asset base, using capital more efficiently, and/or improve cash management by reducing inventory and receivables. For this period, the Asset Turnover is less than the target of 5.00 times.

Asset Turnover = Annualised Revenue / Total Assets

Cash on Hand $1,599,532

A measure of the cash and cash equivalents in actual possession by the company at a particular time. At the end of this period the company held $1,599,532 of cash and cash equivalents. Cash on Hand is above the required target of $10,000.

Cash on Hand = Cash & Equivalents

Current Ratio 2.42:1

A measure of liquidity. This measure compares the totals of the current assets and current liabilities. The higher the current ratio, the greater the 'cushion' between current obligations and the business's ability to pay them. Generally a current ratio of 2 or more is an indicator of good short-term financial strength. In other words, the current assets of the business should be at least double the current liabilities. For this period, the current ratio was 2.42:1, down from 2.73:1 last period and above the minimum target of 2.00:1.

Current Ratio = Total Current Assets / Total Current Liabilities

EBIT Growth 15.93%

A measure of the percentage change in EBIT for the period. A combination of growth in revenues and growth in profits presents a balanced measure of growth For this period, EBIT growth of 15.93% exceeded the target growth of -26.14%.

EBIT Growth = (Earnings Before Interest & Tax - Prior Earnings Before Interest & Tax) / Prior Earnings Before Interest & Tax * 100

Economic Profit $816,792

This measure is underpinned by the concept that a business only adds value for its shareholders if it makes a profit in excess of its cost of capital. Economic profit is calculated as the amount by which profits exceed or fall short of the required return for shareholders. A positive economic profit represents that the business is creating shareholder value. A negative economic profit means that the business is destroying shareholder value. For this period, the economic profit of $816,792 generated by the business exceeds the target of $0.

Economic Profit = Annualised NOPAT - (Total Invested Capital * WACC / 100)

Gross Profit Growth 9.37%

A measure of the percentage change in gross profit for the period. For this period, gross profit growth of 9.37% exceeded the target of 0.25%.

Gross Profit Growth = (Gross Profit - Prior Gross Profit) / Prior Gross Profit * 100

Gross Profit Margin 73.7%

A measure of the proportion of revenue that is left after deducting all costs directly related to the sales. For each $100 in sales the business retains $73.70 after deducting the cost of sales. The gross profit serves as the source for paying operating expenses. The gross profit margin can be further improved by improving price, volume and cost of sales management. For this period, the gross profit margin % is below the required target of 73.78%.

Gross Profit Margin = Gross Profit / Revenue * 100

Net Profit After Tax Margin 14.07%

A measure of the proportion of revenue that is left after all expenses have been paid. The business makes $14.07 of net profit for every $100 it generates in revenue. For this period, the Net Profit After Tax margin is above the required target. A higher result indicates that the business is better prepared to handle down-turns.

Net Profit After Tax Margin = Earnings After Tax / Revenue * 100

Net Variable Cash Flow 71.91%

A measure of the additional cash that will either be generated or used up by the next $100 of products or services that the business sells. If the Net Variable Cash Flow is positive then for every additional $100 of revenue the business will generate cash. If the Net Variable Cash Flow is negative then for every additional $100 of revenue the business will require additional cash funding. For this period, the Net Variable Cash Flow exceeded the target of 0%. The Net Variable Cash Flow is 71.91% of gross revenue. Each additional $100 of Revenue will generate $71.91 of cash.

Net Variable Cash Flow = (Annualised Revenue - Annualised Variable COS - Annualised Variable Expenses - Operating Working Capital) / (Annualised Revenue) * 100

Profitability Ratio 14.47%

A measure of the proportion of revenue that is left after deducting all expenses. This excludes finance costs and tax expenses. The business makes $14.47 of EBIT for every $100 it generates of revenue. The profitability ratio can be further improved by improving price, volume, cost and expense management. For this period, the Profitability ratio is above the required target of 14.18%.

Profitability Ratio = Earnings Before Interest & Tax / Revenue * 100

Quick Ratio 1.74:1

The Quick Ratio measures the availability of assets which can quickly be converted into cash to cover current liabilities. Inventory and other less liquid current assets are excluded from this calculation. The Quick Ratio is a measure of the ability to pay short-term creditors immediately from liquid assets. A quick ratio of 1:1 or more is considered 'safe'. For this period, the quick ratio was 1.74:1, down from 1.85:1 last period and above the minimum target of 1.00:1.

Quick Ratio = (Cash & Equivalents + Accounts Receivable) / Total Current Liabilities

Rent-to-Sales 6.4%

A measure of rent-to-sales.

Rent-to-Sales = (Rent / Sales) * 100

Return on Capital Employed 46.11%

A measure of the efficiency and profitability of capital investment (ie. funds provided by shareholders & lenders). ROCE monitors the relationship between the capital ('inputs') used by the business and the earnings ('outputs') generated by the business. ROCE is arguably one of the most important performance measures. The higher the result the greater the return to providers of capital. For this period, the business has generated a ROCE of 46.11%. This return exceeds the target of 12.5%.

Return on Capital Employed = Annualised Earnings Before Interest & Tax / Total Invested Capital * 100

Return on Equity 66.43%

A measure of how effectively the business has used the resources provided by its owners to generate profits. The higher the ratio the greater the rate of return for shareholders. For this period, the business has generated a Return on Equity of 66.43%. This return exceeds the target of 15%.

Return on Equity = Annualised Net Income / Opening Total Equity * 100

Revenue Growth 5.45%

A measure of the percentage change in revenue for the period. Management should ensure that revenues increase at rates higher than general economic growth rates (ie. inflation). For this period, revenue growth of 5.45% exceeded the target growth of 0.25%.

Revenue Growth = (Revenue - Prior Revenue) / Prior Revenue * 100

Total Revenue $569,621

A measure of the total amount of money received by the company for goods sold or services provided. The business has earned total revenues of $569,621. Strategies to improve revenue may include increasing prices, increasing the volume of sales through marketing initiatives or finding alternative sources of income. For this period, the revenue earned is below the required target of $641,852.

Total Revenue = Revenue

Wages-to-Sales 16.4%

A measure of the percentage of Wages-to-Sales

Wages-to-Sales = (Salaries & Wages / Sales) * 100

Working Capital Absorption 1.7%

A measure of the adequacy of working capital to support sales activity. This measure indicates the investment made in working capital for each unit of revenue. The trend of this ratio is particularly useful for growing businesses. If sales increase rapidly but working capital levels remain constant, the business may be at risk that insufficient working capital is available to support this growth. Moreover, if the result for this metric is greater than the Gross Profit Margin %, then for every additional unit of Revenue generated, additional cash will be required. For this period, Working Capital Absorption is less than the target of 25%.

Working Capital Absorption = Operating Working Capital / (Annualised Revenue) * 100