



Fiscal Focus[®] Review

A CEO's Guide to Numbers that Matter

**Prepared for Example Company
For 12 month periods to 2008**

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Fiscal Focus Review for Example Company

- ÿ Financial information for Example Company has been entered for 12 month periods to 2008
- ÿ The analysis in this report is made on the assumption that the data provided by Example Company is an accurate reflection of the operating results of the business
- ÿ The author of this report has not audited the financial data provided.

Report Contents

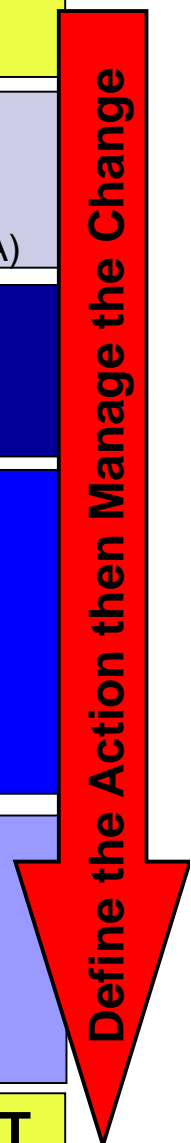
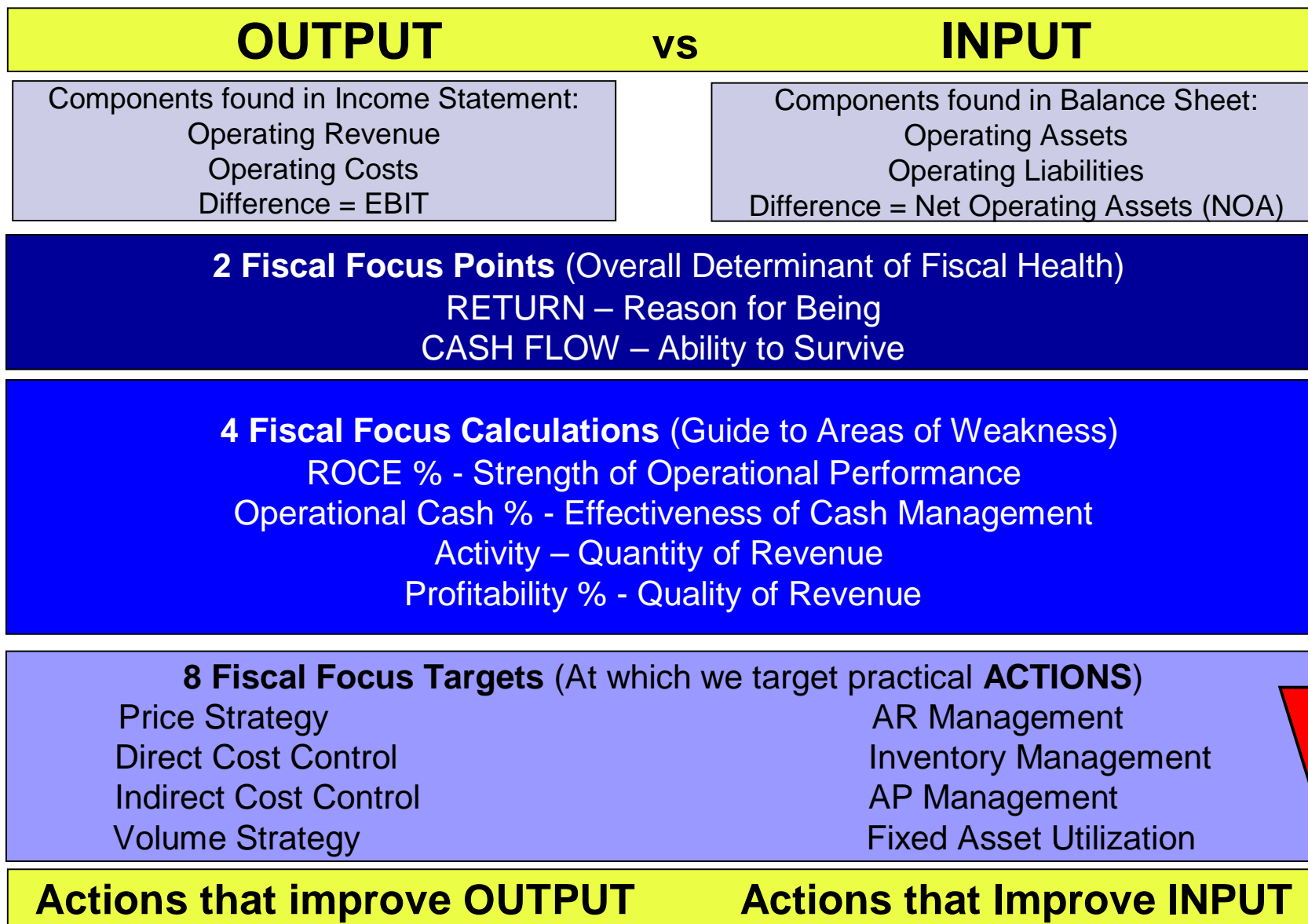
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1. Introduction to the “Fiscal Focus Framework”

- ÿ The “Fiscal Focus Framework” is a business analysis framework defined by Practice Strategies Pty Ltd
- ÿ Plain English
- ÿ Any industry
- ÿ Helps NON financial CEOs / executives better understand the business
- ÿ Helps NON financial CEOs / executives make better decisions
- ÿ Targets practical actions to areas of weakness

Fiscal Focus Framework





Two “Fiscal Focus Points” vs One Dimensional Measure of Profit

ROCE % = Quality of Performance

Cash flow \$ = Realization of Performance

OR

Profit \$ = Quantity of Output

2. Operating Performance – ROCE %

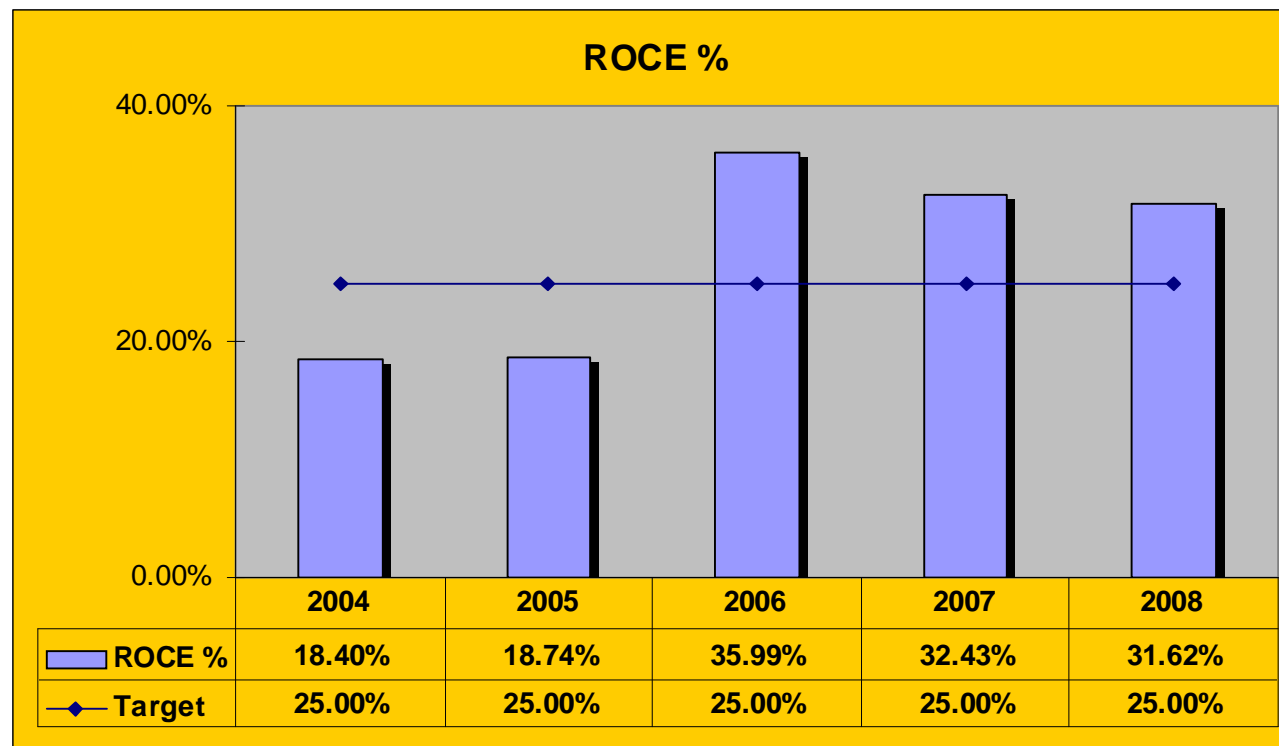
ROCE % is the interest rate the business returns to the owner

It is calculated as **OUTPUT** relative to **INPUT**

ie EBIT / Net Operating Assets

or the relationship between

Quality of Revenue (Profitability %) and **Quantity of Revenue** (Activity rating).



2. Operating Performance

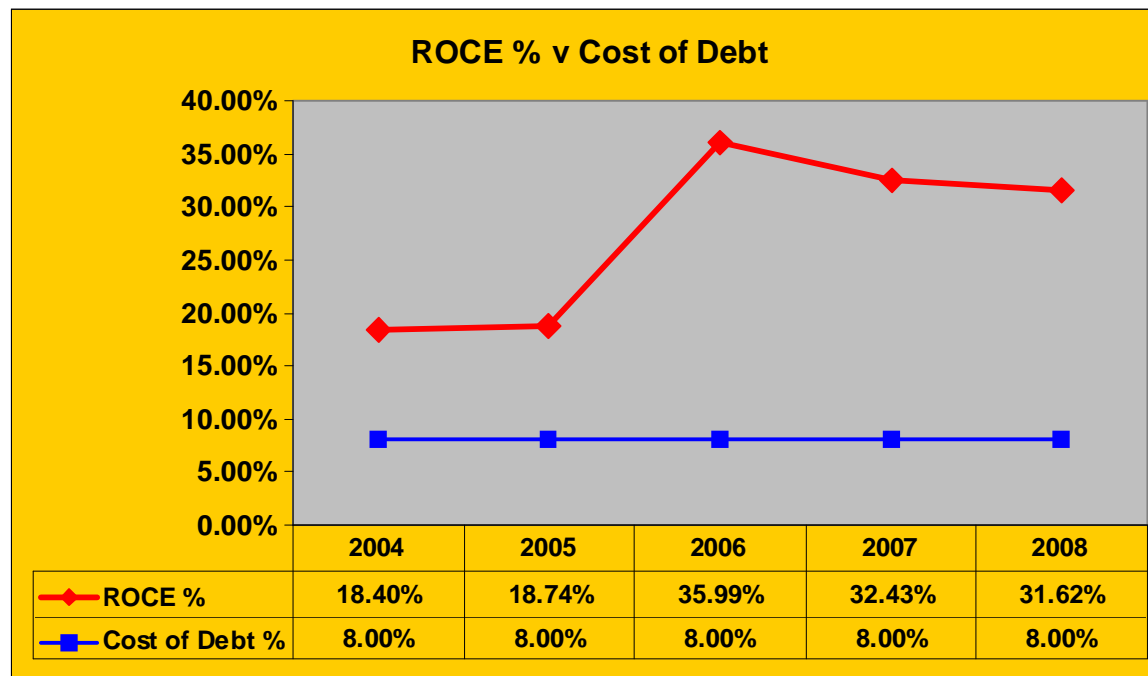
ROCE % v Cost of Debt

Comparison of ROCE % to Cost of Debt

ROCE is the interest rate being generated in each dollar of capital employed by the owner.

The cost of debt is the interest rate paid to bank for debt.

Logically, ROCE % must exceed the Cost of Debt for the business to have a financial reason for being.

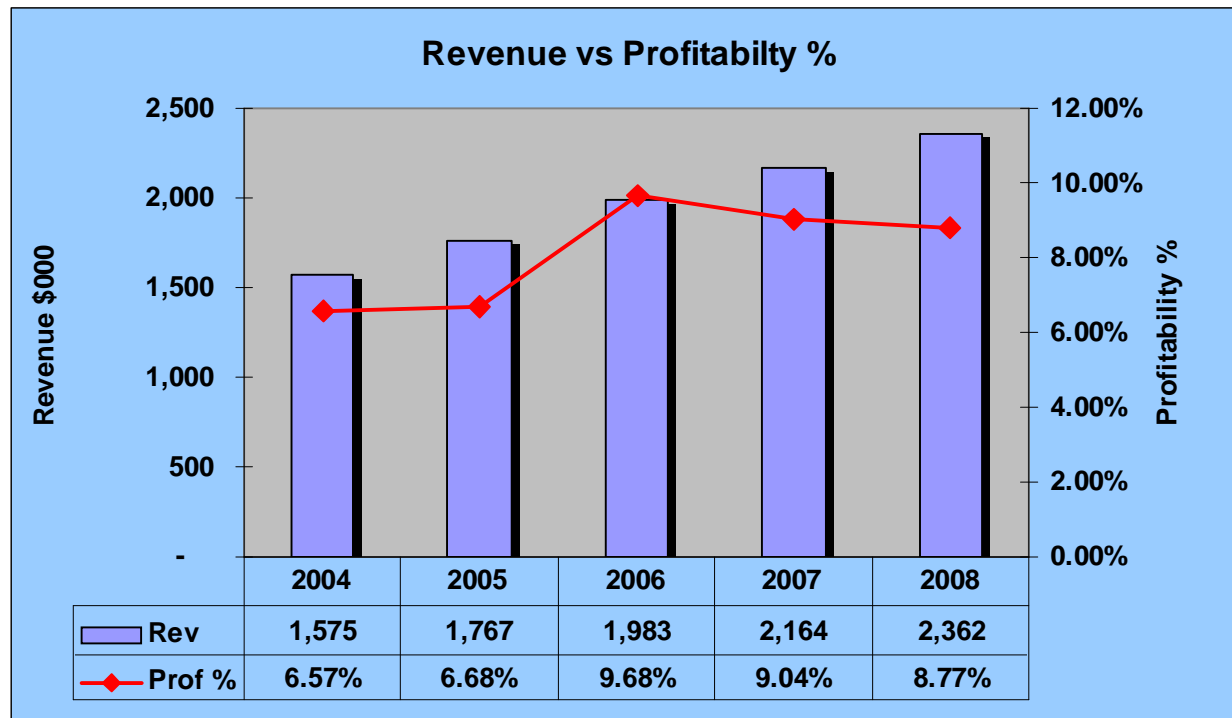


3. Income Statement Performance

Profitability % is an indication of the
QUALITY of REVENUE.

It is the number of cents of profit (EBIT) in each dollar of revenue.

It is calculated as $EBIT / Revenue \times 100$



3. Income Statement Performance

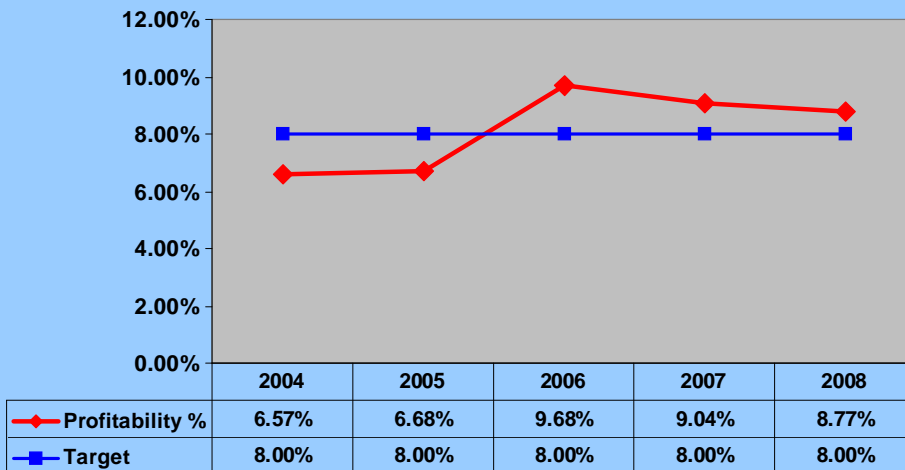
What Influences the Quality of Revenue?

Quality of Revenue is driven by the relationship between
Revenue and Expenses.

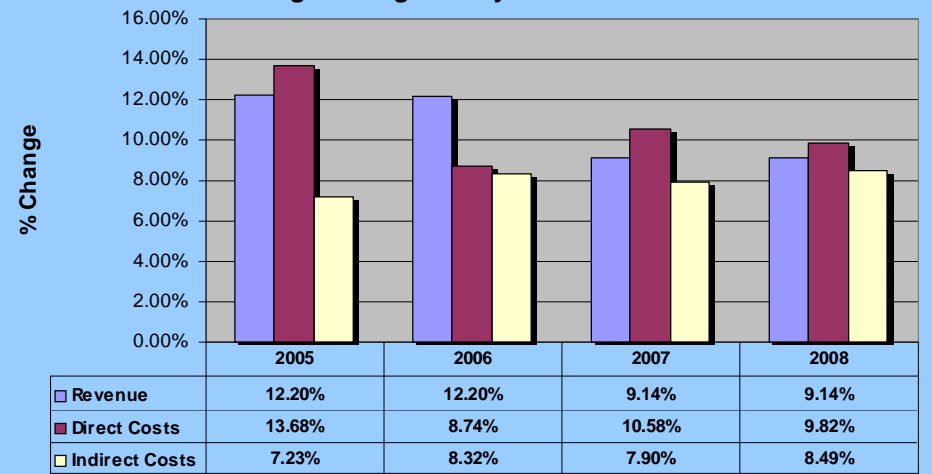
Accordingly it is valuable to track the relative and absolute changes in:

Revenue, Cost of Revenue (COGS) and Operating Expenses

Profitability % vs Industry Target



%age Change in Key Profit Drivers

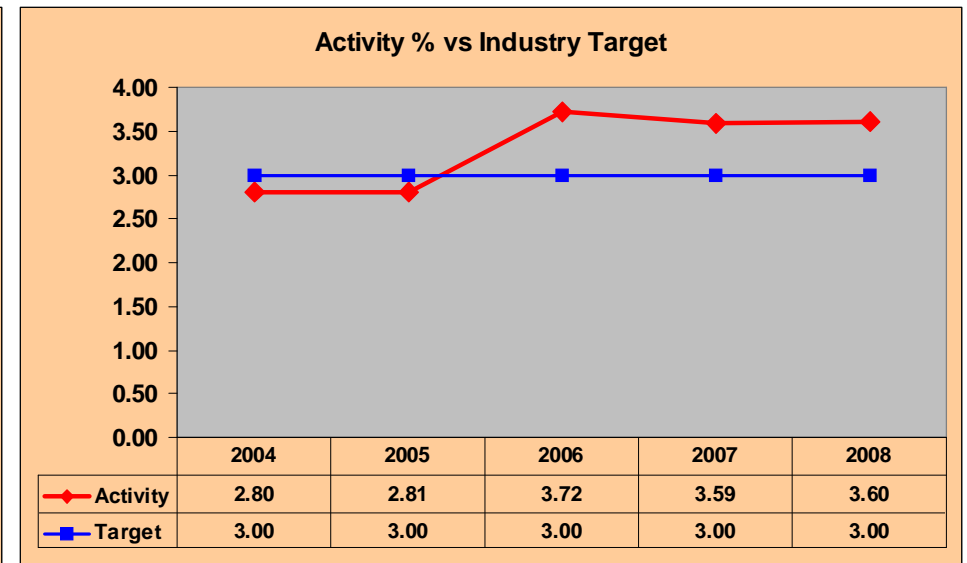
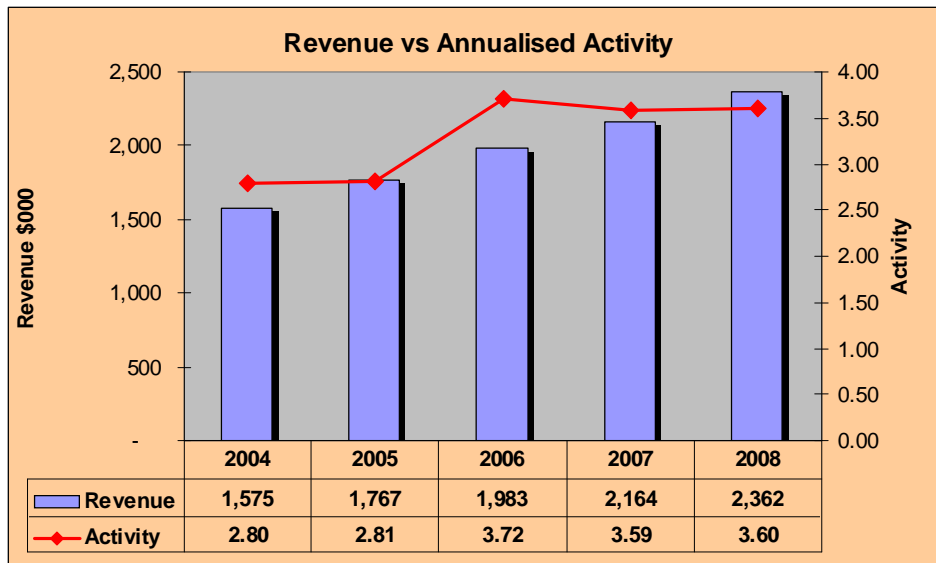


4. Balance Sheet Performance

Activity is an indication of the **QUANTITY** of **REVENUE**.

It is the number of dollars of revenue that have been generated from \$1 of Net Operating Assets.

It is calculated as: $\text{Revenue} / \text{Net Operating Assets}$



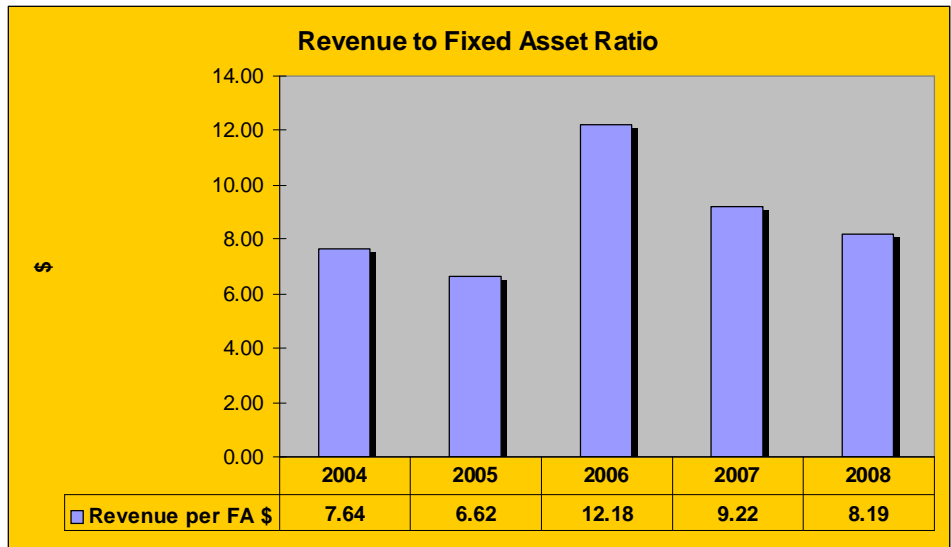
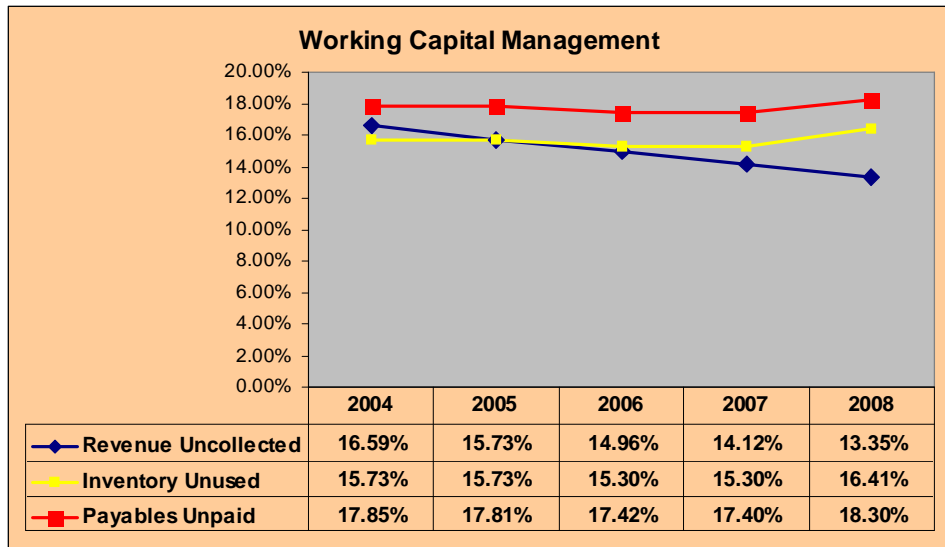
4. Balance Sheet Performance

What influences the Quantity of Revenue?

Quantity of Revenue is driven by:

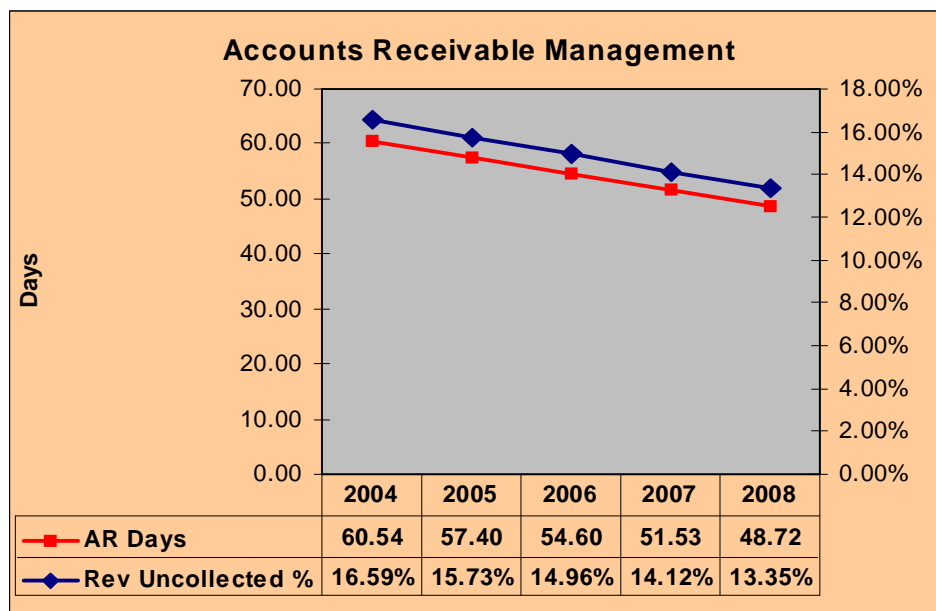
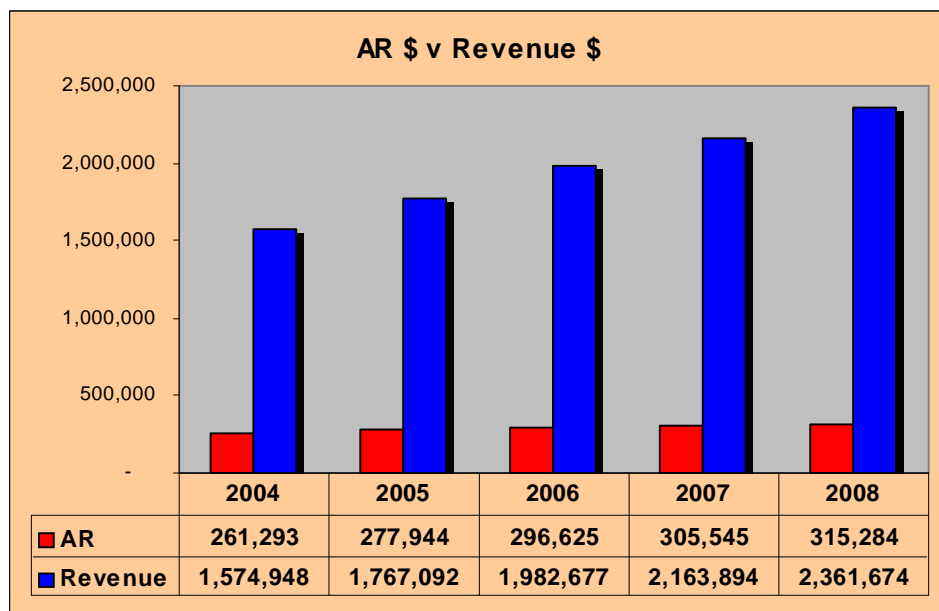
How much revenue was generated from the operating components of the business:

Accounts Receivable, Accounts Payable, Inventory and Fixed Assets



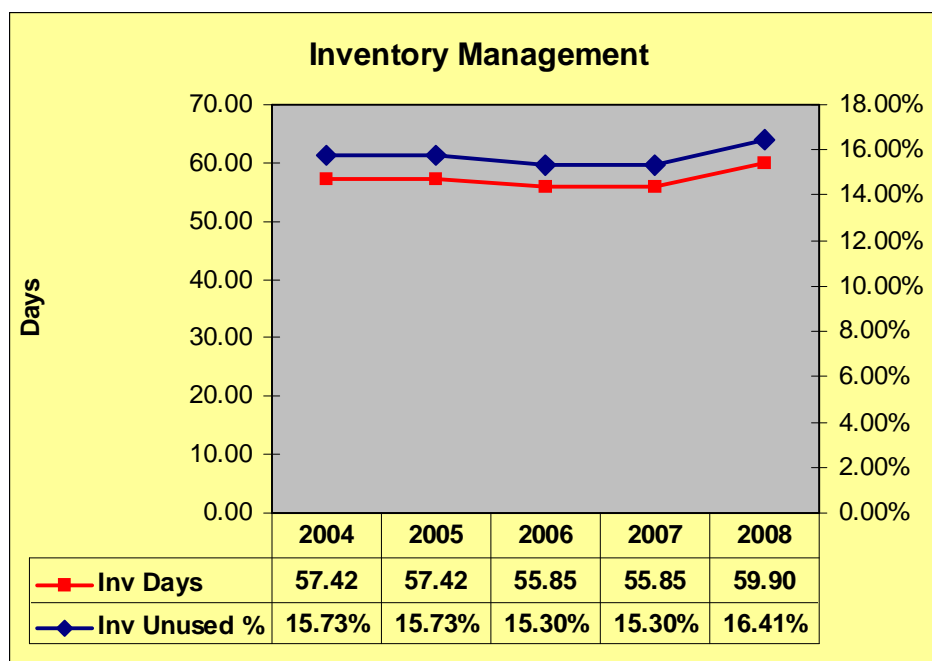
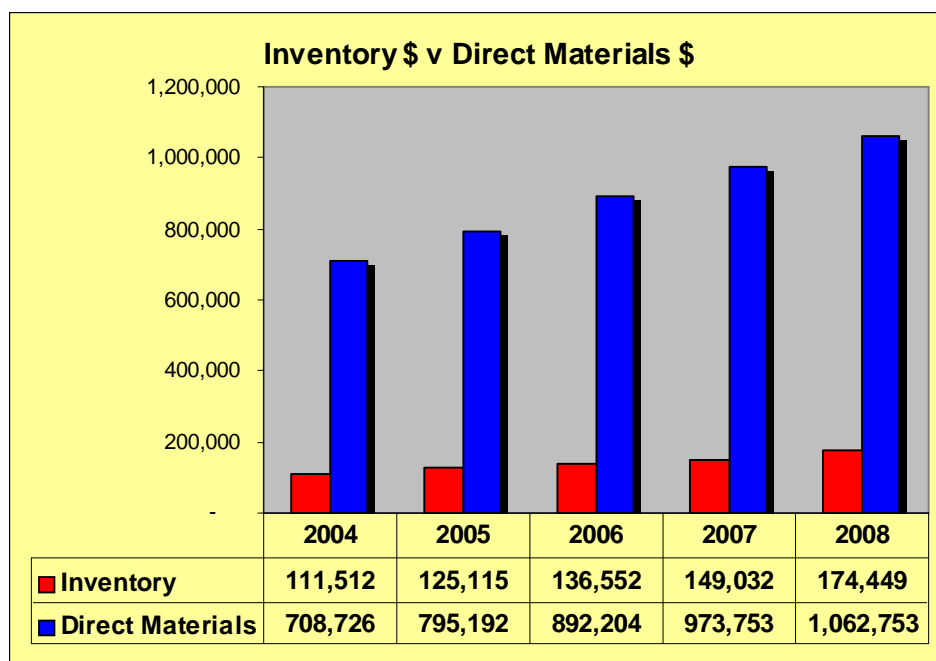
4. Balance Sheet Performance

Accounts Receivable



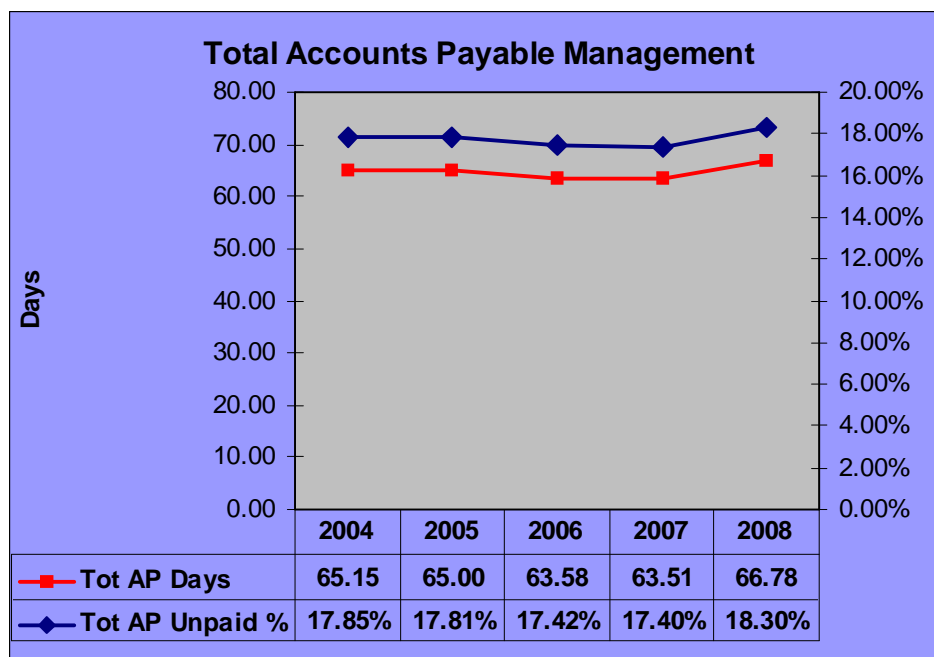
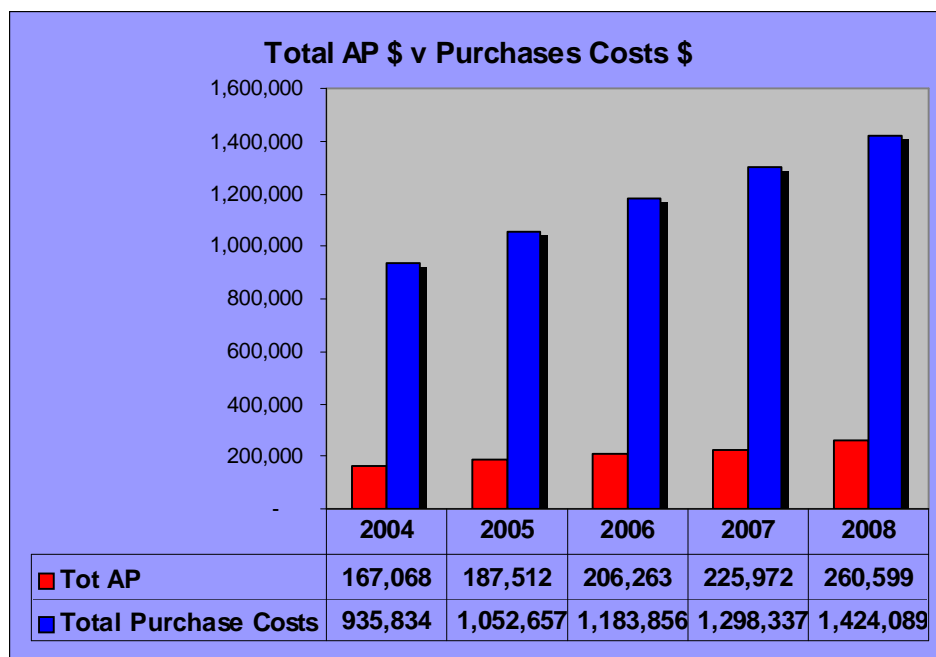
4. Balance Sheet Performance

Inventory



4. Balance Sheet Performance

Total Accounts Payable

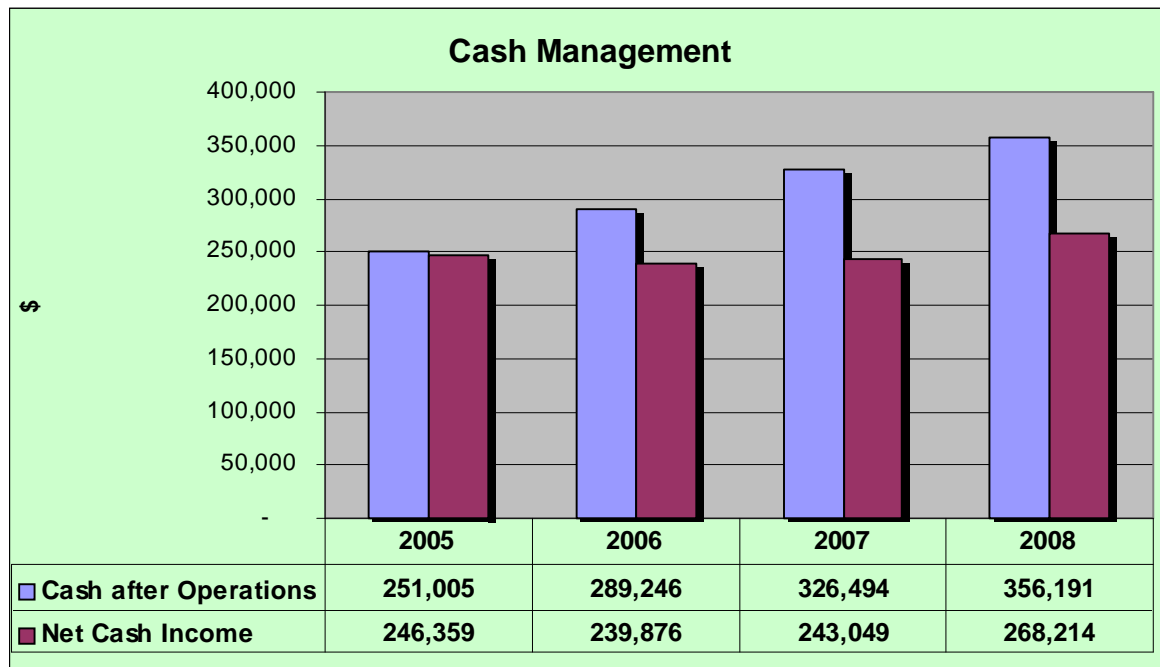


5. Cash Flow Management - Trends

Cash after Operations - “Cash EBIT” : Cash generated from operations. Calculated prior to payment of tax, interest, dividends and fixed asset purchases.

Net Cash Income - “Banker’s Cash”: Cash left over after all operational requirements, payment of income tax, interest and dividends.

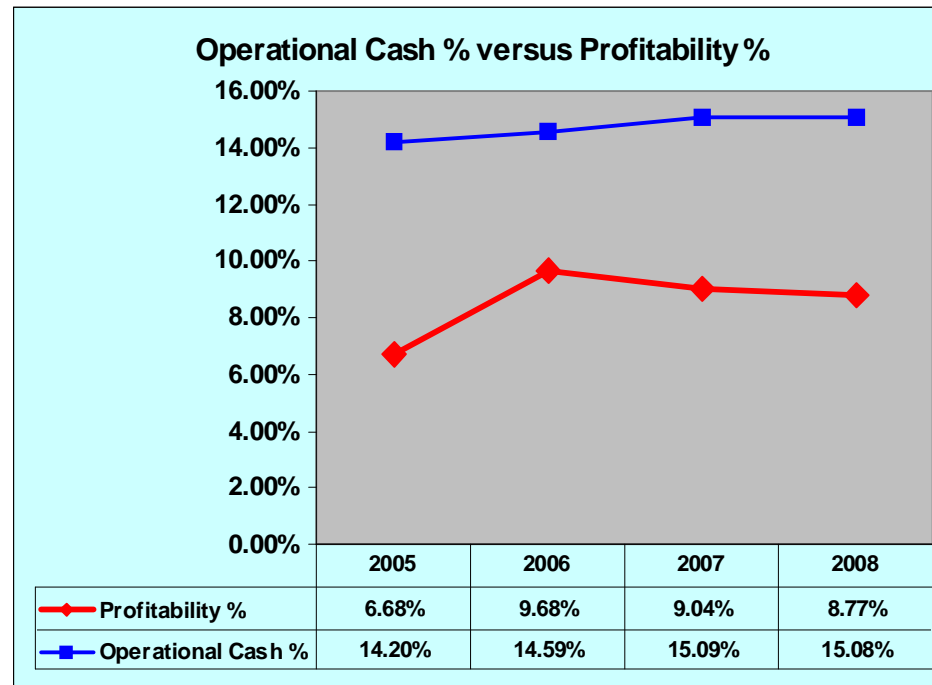
For detailed reconciliation of these numbers see appendix



5. Cash Flow Management – Operational Cash Trends

“Operational Cash %” - This ratio calculates what percentage of total revenue is converted into Cash After Operations

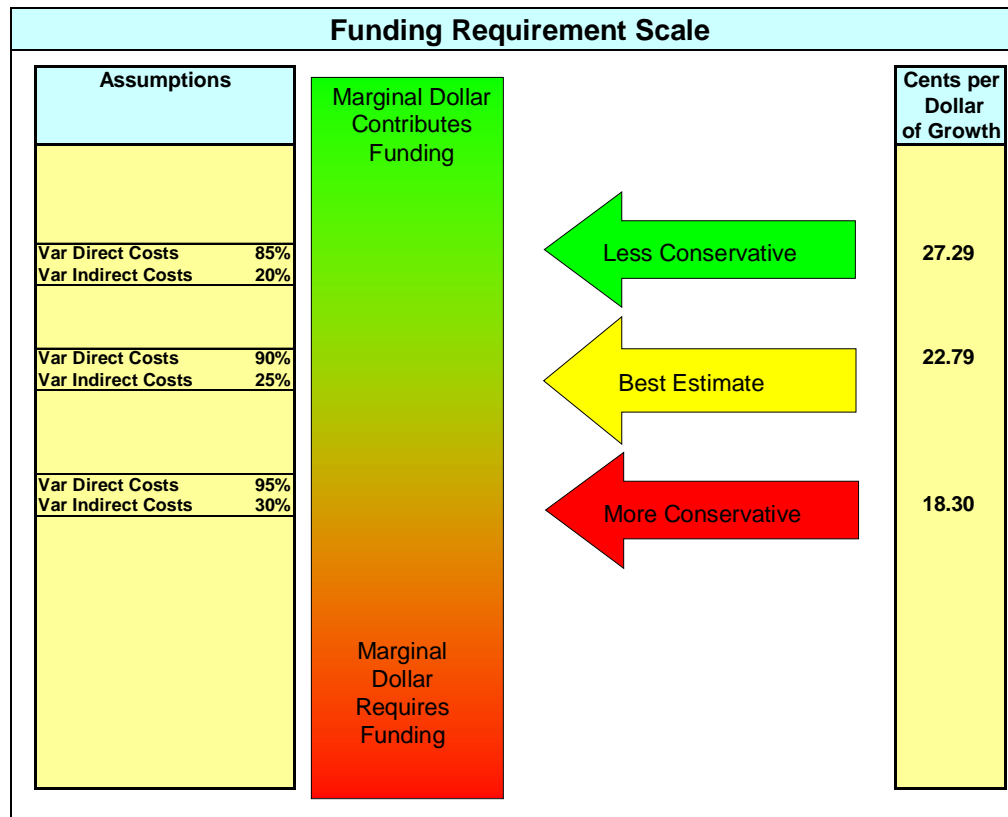
“Profit to Cash Conversion Ratio” – This ratio calculates what percentage of EBIT is converted into Cash After Operations



5. Cash Flow Management

Ability to Fund Growth

The Funding Requirement Scale calculates a range of cash requirement from \$1 additional revenue based on + / - 5% variability in COGS and Overheads.

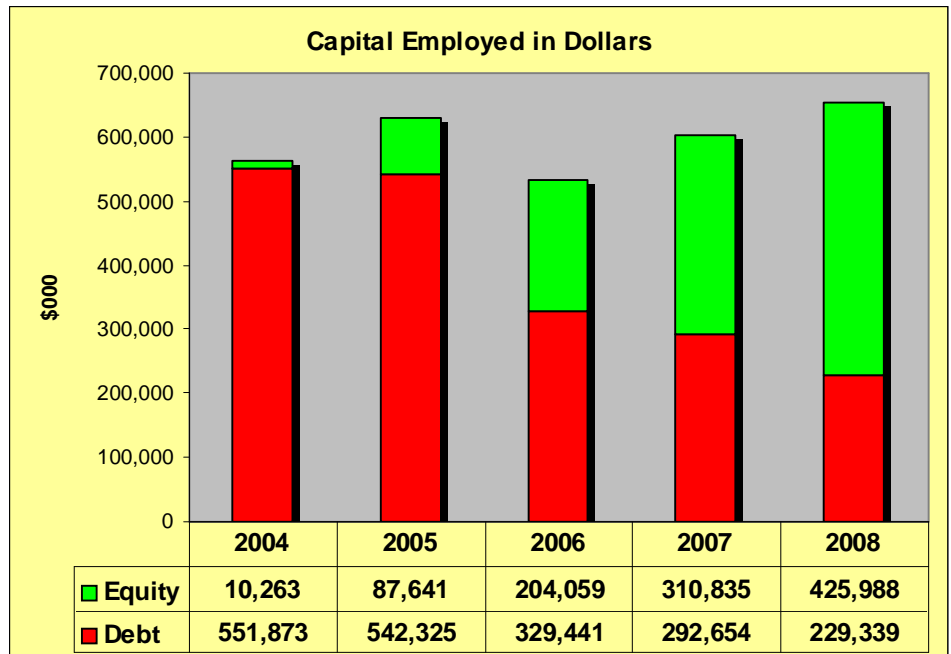
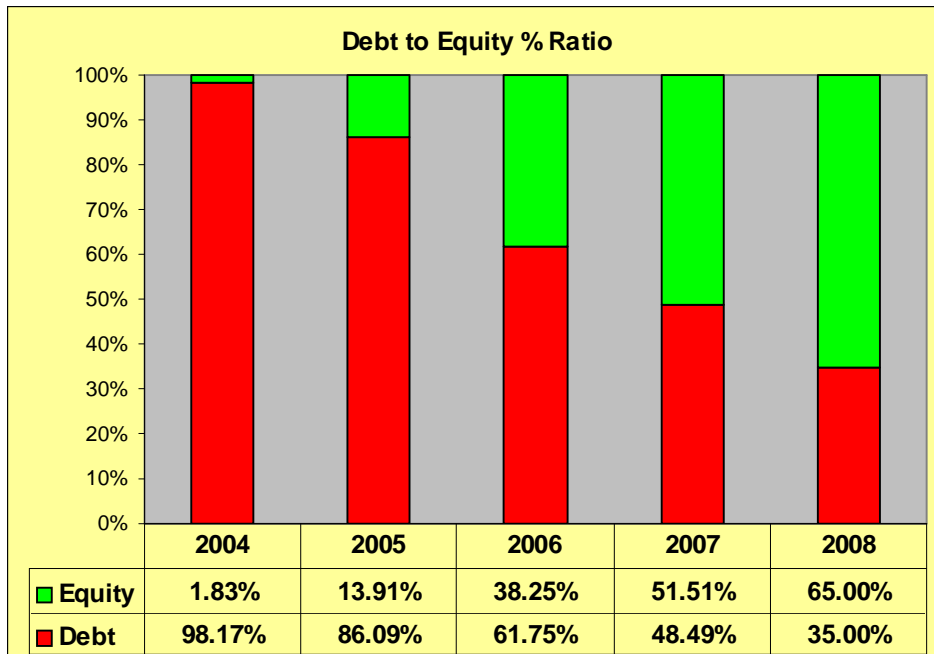


6. Capital Management

There are 2 forms of Capital: **Debt and Equity**

Debt generally has a defined interest rate and is generally provided by a bank.

Equity does not have a defined interest rate and is contributed by the owner or a related party



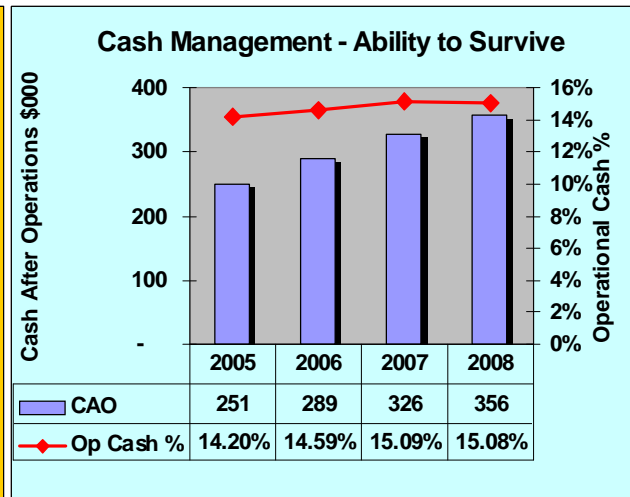
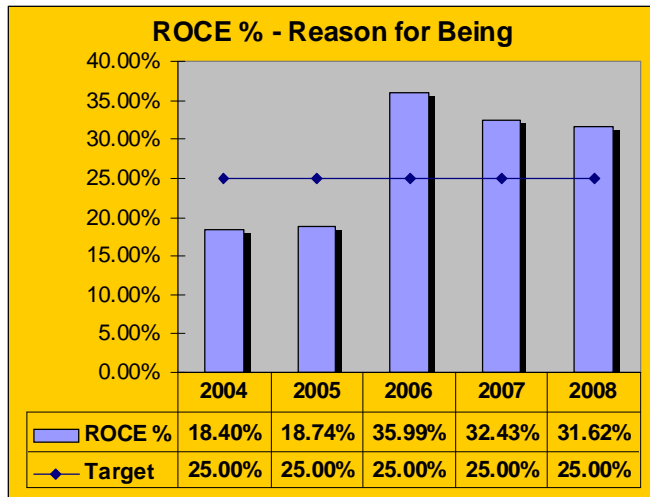
7. Sensitivity of Actions

We have analysed the key drivers of your business and calculated the sensitivity of a change in that driver against our 2 Fiscal Focus Points ROCE % and Cash flow as well as EBIT \$.

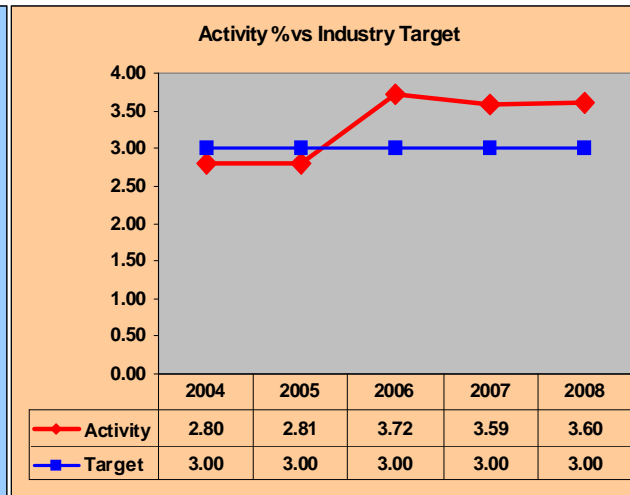
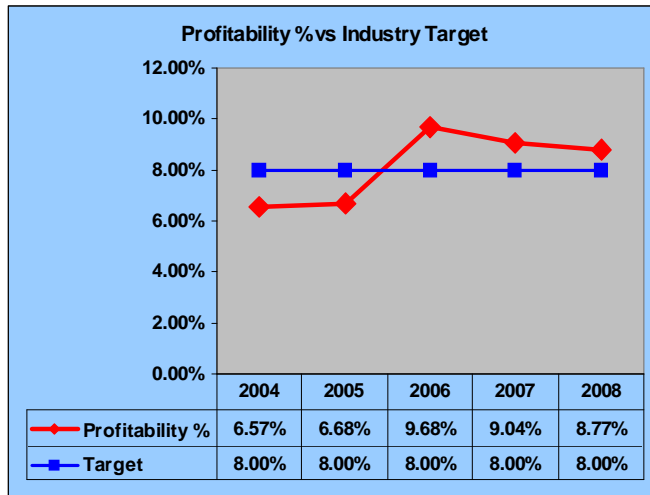
The table lists the amount of the absolute and relative change.

Period		2008	ROCE %	31.62%	EBIT \$	207,229	Cash After Ops \$	356,191
Fiscal Focus Target	Current	Change	ROCE %		EBIT \$		CAO \$	
			Impact	% Change	Impact	% Change	Impact	% Change
Price €	Current	1%	3.44%	10.86%	23,617	11.40%	20,464	5.75%
Volume €	Current	1%	0.97%	3.08%	7,126	3.44%	4,835	1.36%
Direct Cost %	70.81%	-1%	2.29%	7.23%	15,050	7.26%	14,850	4.17%
Variable Indirect Costs %	4.77%	-1%	0.14%	0.44%	1,127	0.54%	466	0.13%
Days Receivables	49	-5	1.65%	5.20%	0	0.00%	32,421	9.10%
Days Inventory	60	-5	0.72%	2.28%	0	0.00%	14,596	4.10%
Days Payable	67	5	0.97%	3.06%	0	0.00%	19,451	5.46%

8. One Page Fiscal Focus Executive Summary



Period	2008			
	FFT	Current	Change	Improvement in:
				ROCE %
				CAO \$
Price €	Current	1%	3.44%	20,464
Volume €	Current	1%	0.97%	4,835
Direct Cost %	70.81%	-1%	2.29%	14,850
Variable Indirect Costs \$	4.77%	-1%	0.14%	466
Days Receivables	49	-5	1.65%	32,421
Days Inventory	60	-5	0.72%	14,596
Days Payable	67	5	0.97%	19,451





Appendix – Tables and Detailed Calculations

- i. ROCE table
- ii. Income statement table
- iii. Breakeven analysis
- iv. Ability to service debt – detailed
- v. Ability to fund growth – detailed cash cycle
- vi. Analysis format income statement
- vii. Analysis format balance sheet

(i) ROCE Table

Return on Capital Employed %							
Ratio	Formula	Plain English	2004	2005	2006	2007	2008
Profitability	EBIT / Revenue	Cents EBIT per Dollar Sales	6.57%	6.68%	9.68%	9.04%	8.77%
Activity	Revenue / Net Operating Assets	Dollars revenue per dollar invested	2.80	2.81	3.72	3.59	3.60
ROCE %	EBIT / Net Operating Assets	Interest Rate to Owner	18.40%	18.74%	35.99%	32.43%	31.62%

(ii) Income Statement Table

Profit and Loss %	2004	2005	2006	2007	2008
Revenue Growth %	12.20%	12.20%	12.20%	9.14%	9.14%
Direct Cost %	70.73%	71.66%	69.45%	70.37%	70.81%
Gross Profit %	29.27%	28.34%	30.55%	29.63%	29.19%
Indirect Cost %	21.05%	20.12%	19.43%	19.21%	19.09%
EBIT %	6.57%	6.68%	9.68%	9.04%	8.77%

(iii) Breakeven Analysis

Breakeven Analysis	
Based on Best Assessment of Variable v Fixed Costs with assumption all "other" components	
Period	2008
Contribution Margin %	31.50%
Total Fixed Costs	\$ 523,380
Revenue at which EBIT will be Zero (Breakeven level)	\$ 1,661,485
Actual Revenue	\$ 2,361,674
Over / (Under) Breakeven	\$ 700,189



(iv) Cash Flow Management

Ability to Service Debt

- ÿ The following report shows the flow of cash through the business
- ÿ Banks use “Net Cash Income” as one of the key measures to assess credit worthiness
- ÿ If “Net Cash Income” is positive, the business has generated sufficient “Cash after Operations” to fund operations as well as pay taxes, interest and dividends
- ÿ This ability to service debt is reviewed in conjunction with the “Debt to Equity” ratio and the available security, to assess credit worthiness
- ÿ If “Net Cash Income” is negative, the business has not generated sufficient “Cash after Operations” to fund operations as well as pay taxes, interest and dividends - this would not be viewed favorable by the banks.

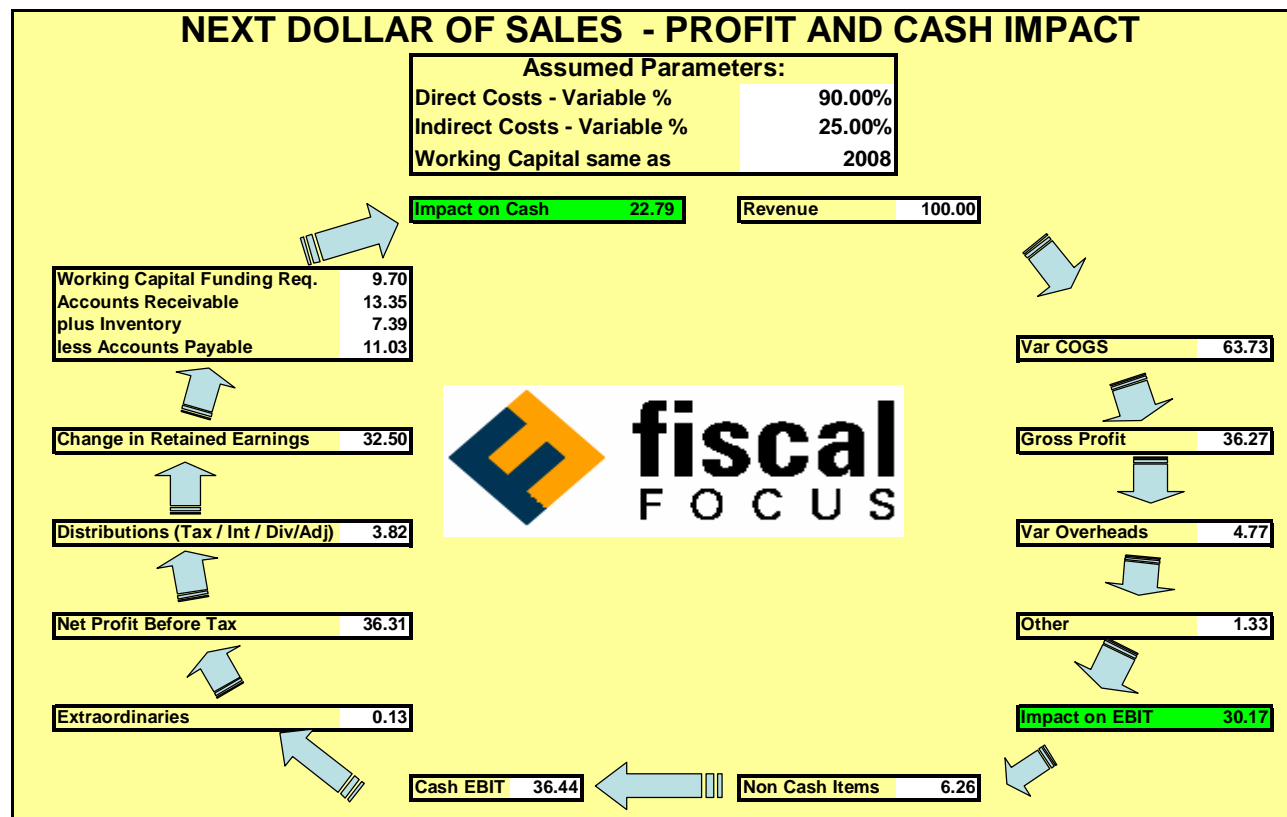
(iv) Cash Flow Management Ability to Service Debt – 2008

Profit to Cash Report		2008 S	
Operational Components		Funding Components	
Revenue	2,361,674	Income Tax Paid	60,000
(Increase) / Reduction in Accounts Receivable	(9,739)	Interest Paid	477
Sales Cash In	2,351,935	Dividend Paid	27,500
Direct Costs (excluding non cash items)	1,535,088	NET CASH INCOME	268,214
Increase / (Reduction) in Inventory	25,417	Reconciliation to Movement in Debt and Cash	
(Increase) / Reduction in Payables	(34,627)	Purchase / (Sale) of Fixed Assets	200,000
Direct Cash Out	1,525,878	Purchase / (Sale) of Investments	(1,000)
Gross Cash Profit	826,057	Purchase / (Sale) of Intangibles	1,800
Indirect Costs (excluding non cash items)	440,065	Withdrawal / (Injection) of Shareholder Funds	2,962
Miscellaneous Transactions (add) / deduct cash	29,801	NET DEBT Movement	64,452
Cash Operating Expenses	469,866		
CASH AFTER OPERATIONS	356,191		
Operational Cash %	15.08%		

(v) Cash Flow Management

Ability to Fund Growth – Cash Cycle

The cash cycle shows how much cash will be created or needed as a result of \$1 additional revenue.
 The calculation assumes the marginal dollar is made on the same parameters as the current period.



(vi) Analysis Format Income Statement

Analysis Format Income Statement	2004	2005	2006	2007	2008
Revenue	1,574,948	1,767,092	1,982,677	2,163,894	2,361,674
Total Direct Costs	1,113,950	1,266,286	1,376,996	1,522,725	1,672,233
Raw material and finished goods value in direct costs	708,726	795,192	892,204	973,753	1,062,753
Salaries value in direct costs	314,989	353,418	396,536	432,779	472,335
Depreciation value in direct costs	90,235	117,676	88,256	116,193	137,145
Gross Profit	460,998	500,806	605,681	641,169	689,441
Total Indirect Costs	331,566	355,546	385,142	415,585	450,876
Salaries value in indirect Costs	74,182	74,923	75,673	77,187	78,729
Depreciation value in indirect costs	28,476	21,358	16,017	12,014	9,011
Amortisation value in direct costs	1,800	1,800	1,800	1,800	1,800
None core items	26,020	27,226	28,559	29,901	31,336
EBIT	\$ 103,412	\$ 118,034	\$ 191,980	\$ 195,683	\$ 207,229
Tax	113	33,162	56,322	57,546	61,137
Interest	8,052	4,646	1,370	945	477
Dividend	53	15,475	26,284	26,855	28,531
Non business related items	2,825	2,848	2,870	2,916	2,962
Change in Retained Earnings	\$ 92,369	\$ 61,903	\$ 105,134	\$ 107,421	\$ 114,122

(vii) Analysis Format Balance Sheet

Analysis Format Balance Sheet	2004	2005	2006	2007	2008
Operating Assets					
Accounts Receivable	261,293	277,944	296,625	305,545	315,284
Inventory	111,512	125,115	136,552	149,032	174,449
Other Current Operating Assets	37,280	40,306	43,318	45,458	48,973
Fixed Assets	206,133	267,099	162,826	234,619	288,463
Operating Investments	6,083	5,084	4,084	3,084	2,084
Intangibles	150,000	150,000	150,000	150,000	150,000
Other Non Current Operating Assets	-	-	-	-	-
Total Operating Assets	772,301	865,548	793,405	887,737	979,253
Operating Liabilities					
Accounts Payable	167,068	187,512	206,263	225,972	260,599
Other Current Operating Liabilities	16,707	18,751	20,626	22,597	26,060
Other Non Current Operating Liabilities	26,390	29,319	33,016	35,679	37,267
Total Current Liabilities	210,165	235,582	259,905	284,248	323,926
Net Operating Assets	\$ 562,136	\$ 629,966	\$ 533,500	\$ 603,489	\$ 655,327
Debt					
Short term debt	31,409	27,658	23,628	19,299	14,646
Cash at Bank	(74,140)	(113,853)	(346,835)	(382,705)	(443,433)
Long term debt	(5,509)	(4,755)	(3,949)	(3,083)	(2,154)
Non Interest Bearing Debt	600,000	600,000	600,000	600,000	600,000
Tax Payable	113	33,275	56,597	59,143	60,280
Interest Payable	-	-	-	-	-
Total Debt	551,873	542,325	329,441	292,654	229,339
Equity					
Initial Capital	15,000	15,000	15,000	15,000	15,000
Retained Earnings	210	62,113	167,247	274,668	388,790
Other Equity	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Dividends Payable	53	15,528	26,812	26,167	27,198
Total Equity	10,263	87,641	204,059	310,835	425,988
Total Debt plus Equity	\$ 562,136	\$ 629,966	\$ 533,500	\$ 603,489	\$ 655,327