

# Club financials Lewis Greenup

#### AGENDA

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# THE THREE MAJOR FINANCIAL STATEMENTS

#### Profit & Loss Statement

Did we make a profit or a loss over a specified period?

#### Components:

- Income proceeds received from sales and providing services, returns on investments
- Expenses any costs incurred by the Club

#### **Balance Sheet Statement**

Do our assets exceed our liabilities at a specific point in time?

#### Components:

- Assets things the Club holds of value
- Liabilities amounts of money that the Club owes to others

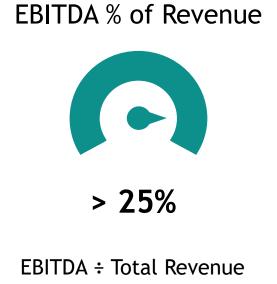
#### **Cash Flow Statement**

Did we make a cash surplus or deficit over a specified period?

#### Components:

- Operating cash flows
- Investing cash flows
- Financing cash flows

#### MY FOUR KEY CLUB FINANCIAL VIABILITY MEASURES



**Current Ratio** 



> 1.0 times

EBITDA ÷ Total Revenue (adjusted for extraordinary items)

Current Assets ÷ Current Liabilities

How efficient is your club at converting revenue to a cash profit?

Can you pay your current liabilities from your current assets?

### MY FOUR KEY CLUB FINANCIAL VIABILITY MEASURES

Debt Service Cover Ratio ('DSCR')



Free Available Cash Flow



+ Positive

EBITDA ÷ Total Debt Repayments (Principal and Interest)

(Net Cash from Operations - Capital Expenditure) - Debt Repayments

Does your cash profit cover your bank repayments and allow a sufficient buffer for other essential expenditure? Does your operating cash flow cover your capital expenditure/funding requirements and allow a sufficient buffer?

# THE CLUB INDUSTRY YARD STICK

EBITDA % Range	Financial Condition
Flourishing - > 25%	The club has the ability to reinvest and reinvent as required
Solid - 15 to 25%	The club needs to critically evaluate capital purchases
Stable - 10 to 15%	The club has sufficient cash flow to maintain current business operations
Distress - 5 to 10%	The club requires change to ensure overall viability
Serious Distress - < 5%	Serious questions as to whether the club can continue as a going concern

### FINANCIAL VIABILITY EXAMPLES

	Scenario 1	Scenario 2	Scenario 3
	Outsource Food	Run Food In House	Motel
Revenue	\$2.3m	\$3.3m	\$3.3m
EBITDA	\$450k	\$350k	\$950k
EBITDA % of Revenue (>25%)	19.9%	10.8%	29.0%
Current Ratio (>1.0)	1.20	1.10	0.90
Debt Service Cover Ratio (>2.0)	1.49	1.17	1.01
Free Available Cash Flow (Positive)	\$50k	(\$50k)	(\$500k)

#### HOW DO YOU USE FINANCIALS/FINANCIAL ANALYSIS?

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# TRADITIONAL BUDGETING VS ZERO BASED BUDGETING

TRADITIONAL BUDGETING	ZERO BASED BUDGETING	
Technique	Technique	
<ul> <li>Last years budget plus or minus a few %</li> </ul>	• Management starts from scratch for each core element of the business (gaming, bar, AEMP, labour etc)	
Mindset	Mindset	
<ul> <li>A process we have to go through</li> <li>Often only CEO/Finance team involved with little input from elsewhere</li> </ul>	<ul> <li>Design how you 'want the business to be' and compare this to 'how it actually is'</li> <li>All key staff are involved in the budget process to design, understand and take ownership of their part</li> <li>Ensure adequate funds are being dedicated to key strategic and operational priorities</li> <li>Identify cost efficiencies which could allow for savings to be redistributed to strategic/operational priorities</li> </ul>	

### SOME USEFUL LINKS

# ▶ <u>The Three Types of Financial Statements</u>, Phil Town

# EBITDA Margin, Corporate Finance Institution

► What is Zero Based Budgeting, McKinsey & Co

Don't be afraid of financial statements

► Use generic benchmarks carefully. Develop your own

Think about how you could take the ZBB approach at your club