



**LG ADVISORY**  
STRATEGY & INNOVATION

# Club financials

Lewis Greenup

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# 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

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# MY FOUR KEY CLUB FINANCIAL VIABILITY MEASURES

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EBITDA % of Revenue



**> 25%**

EBITDA ÷ Total Revenue  
(adjusted for extraordinary items)

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

Current Ratio



**> 1.0 times**

Current Assets ÷ Current Liabilities

Can you pay your current liabilities from your current assets?

# MY FOUR KEY CLUB FINANCIAL VIABILITY MEASURES

Debt Service Cover Ratio  
(‘DSCR’)



**> 2.0 times**

$\text{EBITDA} \div \text{Total Debt Repayments}$   
(Principal and Interest)

Does your cash profit cover your bank repayments and allow a sufficient buffer for other essential expenditure?

Free Available Cash Flow



**+ Positive**

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

Does your operating cash flow cover your capital expenditure/funding requirements and allow a sufficient buffer?

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# THE CLUB INDUSTRY YARD STICK

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## 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

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# 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)

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## HOW DO YOU USE FINANCIALS/FINANCIAL ANALYSIS?

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Compliance  
Purposes

VS

Operational  
Purposes

VS

Strategic  
Purposes



# TRADITIONAL BUDGETING VS ZERO BASED BUDGETING

TRADITIONAL BUDGETING	ZERO BASED BUDGETING
<p>Technique</p> <ul style="list-style-type: none"><li>• Last years budget plus or minus a few %</li></ul>	<p>Technique</p> <ul style="list-style-type: none"><li>• Management starts from scratch for each core element of the business (gaming, bar, AEMP, labour etc)</li></ul>
<p>Mindset</p> <ul style="list-style-type: none"><li>• A process we have to go through</li><li>• Often only CEO/Finance team involved with little input from elsewhere</li></ul>	<p>Mindset</p> <ul style="list-style-type: none"><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>

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## SOME USEFUL LINKS

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- ▶ [The Three Types of Financial Statements, Phil Town](#)
- ▶ [EBITDA Margin, Corporate Finance Institution](#)
- ▶ [What is Zero Based Budgeting, McKinsey & Co](#)

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## TAKEAWAYS

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- ▶ 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