

Billy Bob's Barbecue

Financial Performance Report

For

April 2015

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HOW TO INTERPRET THE ANALYSES

This financial performance report is an ideal tool to enable business owners and their employees to practice *management by exception*.

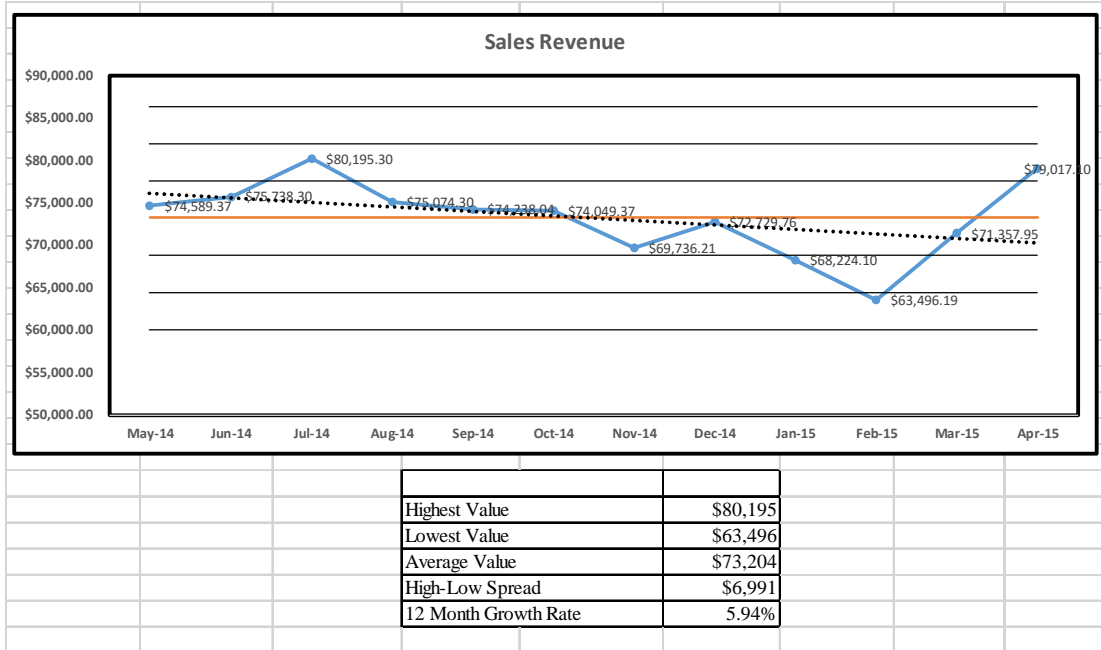
Management By Exception (MBE) is a style of management that consists of focus and analysis of statistically relevant anomalies in system performance data. In a reasonably well run company most of the reported data will not reflect any statistically relevant anomalies most of the time. In these cases, a quick glance at a particular system or operation's historical performance data over a reasonably relevant look-back time period is all that is required. This "quick glance and pass" management technique therewith frees up a great deal of time that management can then devote to those situations that are anomalous in some way.

For example, if all operating costs are within a statistically expected or pre-defined acceptable range for the look-back period except one particular cost center which is not performing within acceptable statistical parameters, only that operating cost requires further investigation and discovery of the root cause of unacceptable performance. Management by exception is intended to reduce the managerial load and enable managers to spend their time more effectively in areas where it will have the most impact.

This report's initial presentations are the company's month end Income Statement and Balance Sheet as prepared by the company's bookkeeper. Following these financial statements, a reformatted Income Statement is presented. This reformatted Income Statement makes possible a large number of analyses that are not possible to produce using the company's standard Income Statement format. Indeed, with some bookkeeping software, most notably Quick Books, it is not possible to create the Income Statement format that forms the basis for most of the financial performance analyses presented in this report.

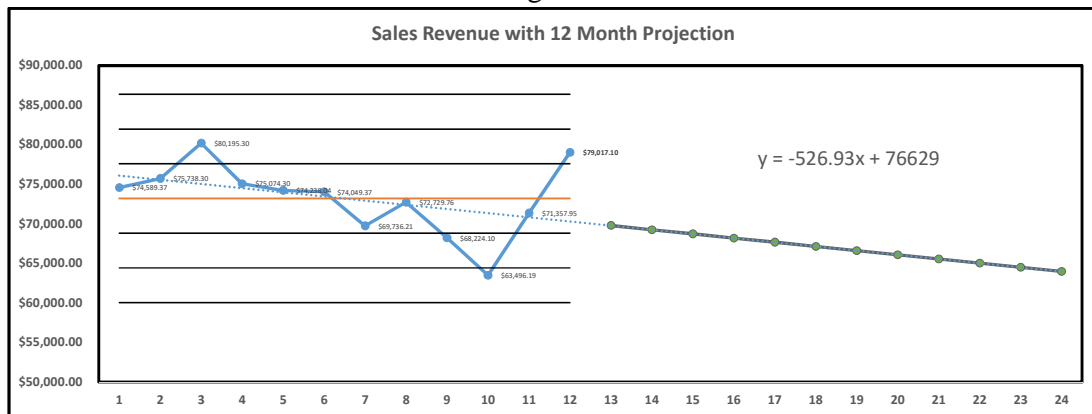
The first Income Statement analysis is the company's rolling 12 months sales revenue history ending with the most recent month' sales, in this example April, as presented in Figure 1

Figure 1



Next, this same historical data is re-presented together with a projection line extending 12 months into the future as we see in Figure 2.

Figure 2



12 Month Projection	
May-15	\$69,779
Jun-15	\$69,252
Jul-15	\$68,725
Aug-15	\$68,198
Sep-15	\$67,671
Oct-15	\$67,144
Nov-15	\$66,617
Dec-15	\$66,090
Jan-16	\$65,563
Feb-16	\$65,037
Mar-16	\$64,510
Apr-16	\$63,983

The presentation of a rolling 12 month history is repeated for all of the company’s operating cost centers and earnings categories. There are two reasons for presenting the most recent month end financial performance within the context a rolling 12 month history. The first reason is that the business owner can gain a far better understanding of his or her company’s financial performance for the month just ended when consider within the context of the last 12 months—especially when presented graphically. The second reason is that 12 months’ of data serves well as the basis for projecting the subject performance metric 12 months into the future. It’s true that a simple linear projection line into the future based on the past 12 months’ history is not a very sophisticated forecasting methodology. On the other hand, however, these projections are far better than having little or no idea of what the future may hold in store—especially if current trends suggest trouble ahead if remedial action is not initiated immediately. The best way to get a good feel for “current trends” is to consider the most recent performance data as presented in Figure 2. It would be easy, and probably most likely that without looking at April’s sales as presented in Figure 2 that the business owner would form the opinion that all is well and indeed given April’s sales, believe wholeheartedly that a bright future lies ahead. Well, maybe it does but our trend line is telling us that the jury is still out on this matter.

Figure 3

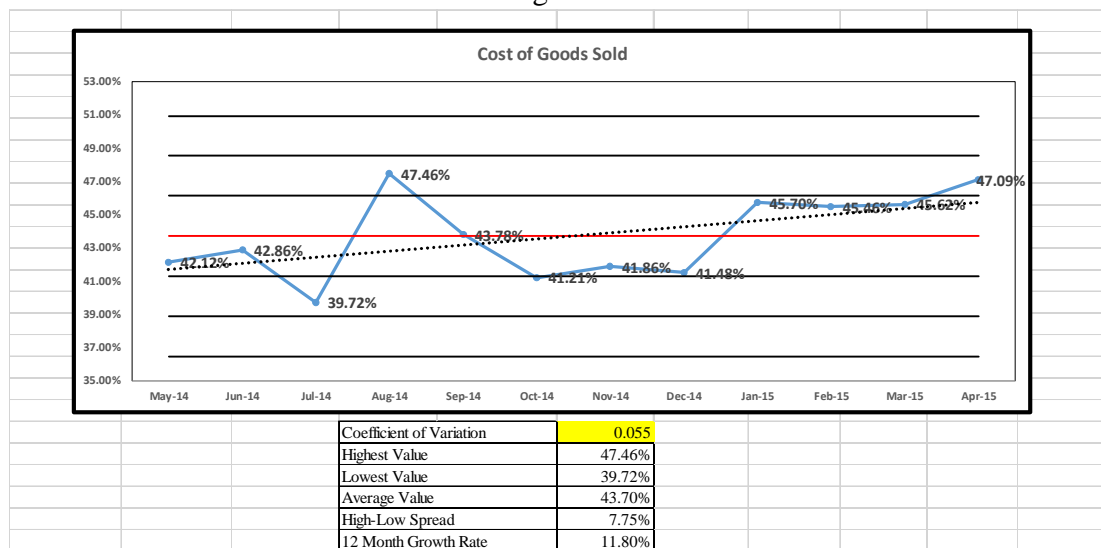


Figure 3 presents our first operating cost category to consider. There is a lot to be gleaned from this chart.

In this example we’re looking at a chart based on the past twelve months’ Cost of Goods Sold percentage of Sales Revenue. Thus the first thing we see is that the cost of goods sold is presented in terms of its percentage of sales revenue. This is because the Cost of Goods Sold is a *variable cost* meaning that it varies approximately in tandem or approximately mirrors Sales Revenue’s increases and decreases from month to month. For this reason, assessing the characteristics of any *variable cost* in terms of that cost’s percentage of sales revenue is by far the most effective way to determine if it is under control and at an acceptable level.

Each month's cost of goods sold's percentage appears as a dot on the graph. The next feature of this graph to consider are the blue lines connecting the dots. They form something of a zig-zag pattern, the meaning of which will be explained momentarily. The level, red line passing through the middle of the array is the twelve-month average value. The dotted line is a linear regression line thought the data which displays the general twelve-month trend in this cost.

Next is the *amplitude* of the zig-zags. The greater their amplitude the less predictable this metric will be on a going-forward basis. Ideally, we want to see a very low amplitude; all amplitude, i.e. all departure from the red line average value should be considered a bad thing that needs to be minimized and controlled as best as possible. A common way to compare the relative amplitude of two or more performance metrics or compare a single metric to a subjectively determined acceptable maximum amplitude is the array's *Coefficient of Variation*. This is the array's standard deviation divided by the array's average value. The lower the standard deviation, (i.e., the tighter the grouping of an array's values around the array's average value) the lower will be the Coefficient of Variation. Here we see that the Coefficient of Variation is .055. It is highlighted in yellow indicating that it exceeds management's subjectively established acceptable maximum desired level and that it should be watched. If this cell was red it would mean that this cost is not under control from a volatility perspective. The Coefficient of Variation is a metric that enables one to assess the relative degree of volatility compared to all other variable costs. However, this chart also shows the spread between the highest percent of sales and the lowest percent of sales for this cost over the last twelve months. Comparing this cost center's metric to other cost centers is not a meaningful exercise. However, this metric is ideally suited to establishing goals for minimizing a cost center's volatility.

The three lines above and below the red center line are one, two and three standard deviations away from the average. The relative width of the one, two and three standard deviations provides management with very good direction as to where to focus their time and energy in system improvement efforts and that is, discerning this cost's *statistical stability*.

Statistical stability is the *absence* of any kind of pattern to the zig-zags over the twelve-month history. The absence of any kind of pattern is an indication that the observed oscillations are due entirely to random influences as opposed to influences traceable to a specific, identifiable cause. This *does not* mean that the performance metric is acceptable; only that it is under control. In our Cost of Goods Sold chart, no patterns are evident which means that this cost is *statistically stable*. Being *statistically stable* means that the observed oscillations in the cost's percentage of sales revenue from month to month are caused by random influences which are often beyond management's ability to measure or even know their cause. Thus in Figure 3 we see an operating cost that is statistically stable but with an unacceptably wide range in the amplitude of the oscillations and that it is also noticeably higher than its industry's average value; a comparison we will examine later.

There is an extremely important concept that attaches to the indication that a performance metric is statistically stable. That concept is that it is *impossible* to improve a performance metric that is statistically *unstable*. In other words, the first order of business in trying to bring about improvement in any phenomena's performance is to establish that performance's statistical

stability. This is because it is impossible to know if efforts to improve an unstable performance metric are working because its pre-existing instability corrupts measurements of the degree of improvement, if any, that is being attempted.

The preceding raises the question of what constitutes a “pattern” in a metric’s observed performance variability over a given time period—in this case twelve months. Well, here is a list:

1. More than 9 consecutive points either above or below the average value.
2. More than 8 consecutive points above or below the average value but all within one or between two and three standard deviations.
3. More than one point greater than two standard deviations either above or below the average.
4. More than 6 points in succession with each value greater than or less than the preceding point (i.e., an upward or downward trend)
5. More than 7 consecutive points above, then below, then above, then below the average value.

Another important concept that can be gleaned from our Statistical Control Chart is evidence that attempts to improve a metric’s performance is working. And that evidence is the occurrence of an out-of-control indication. For example, if management embarked on an attempt to reduce the Cost of Goods Sold, proof of that effort’s success would be an “out of control” indication of more than 5 consecutive points below the average value and/or more than 4 points in succession with each value less than the preceding value.

In the table below the chart, the bottom metric is the percentage growth rate between the first and twelfth month. This is a number to watch because if it suddenly jumps up from the prior month’s report, that’s a call for investigation and possible action. Also, it is possible for this growth rate metric to show an increase while the 12-month projection line is declining and vice versa. This fact is helpful in keeping you from jumping to the wrong conclusion for the better or the worst by only considering the percentage change between the first and twelfth month and ignoring what the general trend all twelve months combined is indicating.

All of our subject company’s variable cost centers—Cost of Goods Sold, Direct Labor Cost, Marketing Expense, and Other Variable Costs are charted like Figure 2.

Assessing an operating cost’s volatility and statistical stability only makes sense for *variable* costs. It is a company’s variable costs that pose the greatest challenge for minimizing volatility and maintaining statistical stability. Fixed costs are different. The term “fixed” means that this cost does not ebb and flow in tandem with sales revenue. Fixed costs do vary over time and most of the variation (but not all) is attributable to reasons other than changes in sales revenue. Probably the most significant factor that causes fixed costs to change is monetary inflation. Therefore, a fixed cost’s percent of sales revenue is a meaningless metric. The best fixed cost we can use to demonstrate this proposition is rent. In our hypothetical restaurant, its monthly rent is \$5,500. This is the amount the owner pays every month. Thus there is no volatility in this cost whatsoever and it is perfectly stable. However, if we calculate its’ percent of sales revenue every

month and plot those percentages on a graph we will obtain the same zig-zag pattern we get in all of the variable costs graphs. In this case though our observed “cost volatility” is actually a mirror reflection of the volatility in sales revenue. The same principle goes for all fixed costs but with a little “noise” added in from minor month-to-month fluctuations in those costs. The fixed cost measurement metric management should watch most closely is its long-term trend. This same logic applies to all earnings metrics as well.

The next section of this monthly report presents several views of the *Contribution Margin*. I’m certain that this financial performance metric is unfamiliar to most business owners because I have never seen it on a company’s Income Statement. Be that as it may, the Contribution Margin is an enormously useful performance metric to calculate. It shows the firm’s profit resulting from sales revenue minus all variable costs. In other words, this is the money available to “contribute” to covering all fixed costs and net profit. It summarizes the combined effect of increasing and decreasing changes in all of the firm’s variable costs. It is necessary to watch the trend in the Contribution Margin relative to the company’s fixed costs. If the Contribution Margin’s trend line is converging downward on the Fixed Cost’s trend line it means that the company is heading for bankruptcy because profit hits zero when they converge and goes negative when the fixed costs exceed the contribution margin.

Another thing to look for is if the fixed cost trend line is heading upward at a steeper slope than the contribution margin’s trend line. Over the long-run, fixed costs always increase because they are driven significantly by inflation. Thus when the fixed cost upward sloped trend line appears to be converging on a less upward sloped contribution margin’s trend line that could mean trouble ahead unless remedial action isn’t taken which may mean it’s time for some product or service price increases. Additionally, the Contribution Margin’s percent of sales revenue provides the basis for calculating a company’s breakeven sales revenue. This topic will be addressed in detail momentarily.

Figure 4

Non-Discretionary Fixed Costs		
Rent	\$5,500.00	6.96%
Utilities	\$1,508.72	1.91%
Property & Liability Insurance	\$397.03	0.50%
Bookeeping & Accounting	\$250.00	0.32%
Depreciation & Amortization Expense	\$4,562.10	5.77%
Interest on Bank Loan	\$378.22	0.48%
Total Non-Discretionary Fixed Costs	\$12,596.07	15.94%
Total Operating Costs Before Discretionary Costs	\$72,518.15	91.27%
Operating Profit before Discretionary Costs	\$6,498.95	8.73%
Discretionary Fixed Costs		
Owner's Salary	\$7,000.00	8.86%
Overhead on Owner's Salary	\$770.00	0.97%
Owner's Health & Life Insurance	\$225.00	0.28%
Owner's Automobile Expenses	\$138.99	0.18%
Travel & Entertainment	\$456.87	0.58%
Dues & Subscriptions	\$56.70	0.07%
Charitable Contributions	\$500.00	0.63%
Total Discretionary Fixed Costs	\$9,147.56	10.94%
Total Fixed Costs	\$21,743.63	26.88%
Total Operating Costs	\$81,665.71	102.21%
Net Operating Income (Loss)	(\$2,648.61)	-2.21%

Following several views of the Contribution Margin, this report presents several charts presenting three key levels of pre-tax profitability. The first level is *Operating Profit Before Discretionary Fixed Costs*. In order to grasp what this means, consider how the company’s fixed costs are presented in the reformatted Income Statement presented here as Figure 4.

This Income Statement formatting protocol is enormously helpful in understanding the company’s true profitability which is its *Operating Profit Before Discretionary Fixed Cost*. The next section of the statement, *Discretionary Fixed Costs* are cost over which the owner has total control to spend as reflected on the statement or take out in cash if so desired. It also serves as a clearly identifiable area where it is possible to cut costs in order to avoid bankruptcy should such action become necessary.

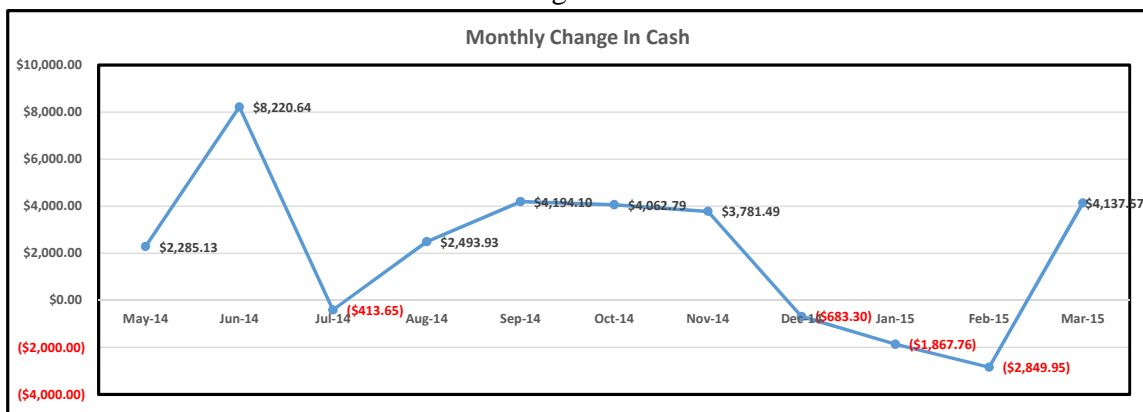
The second measurement of the company’s profitability is its pre-tax *Net Operating Income (loss)*. This is the metric meant to appear on the company’s income tax return. As such, most business owners strive to keep it as low as possible.

Figure 5

Billy Bob's Barbecue		12-Month Total
Net Pre-Tax Operating Income (Loss)		(\$8,029.13)
Add Back		
Depreciation & Amortization Expense		\$54,745.20
Interest on Bank Loan		\$4,796.78
Total Discretionary Fixed Costs		\$101,262.53
Owner's Discretionary Cash Flow		\$212,317.35

The third measure of profitability is *Owner’s Discretionary Cash Flow*. This financial performance metric does not appear on the company’s Income Statement. It is a separately compiled total of non-cash charges, interest payments plus Operating Profit Before Discretionary Fixed Costs. This metric is by far the most common indication of a company’s profitability used by business brokers, business buyers and often business appraisers in determining what a business is worth and its most probable selling price.

Figure 6



The next group of charts focus on the last eleven months’ monthly change in cash and arguably are the most important of the rolling 12 month analyses to consider. As the saying goes, “managing a business is like playing poker: your profitability can ebb and flow but when you run out of cash, you are out of the game.” A unique feature of the cash flow or change in cash charts are the rolling 12 month *cumulative* change in cash charts which show the company’s cash

balance and provide the business owner with insight to the separate factors that are causing increases and decreases to the company's cash balance.

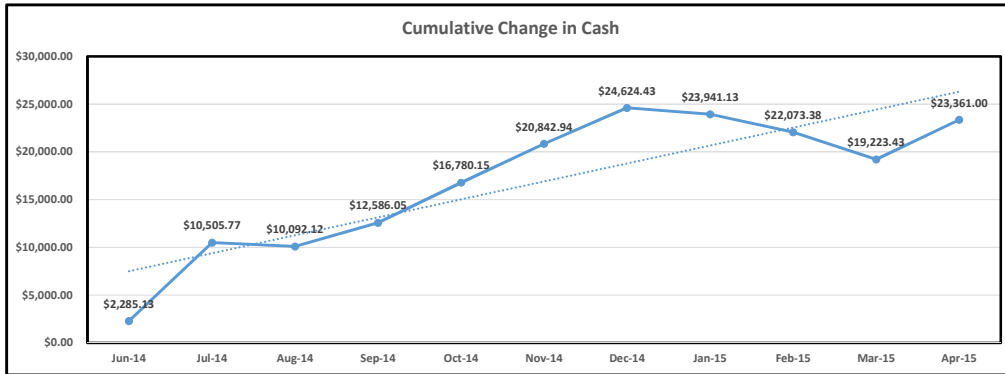


Figure 7

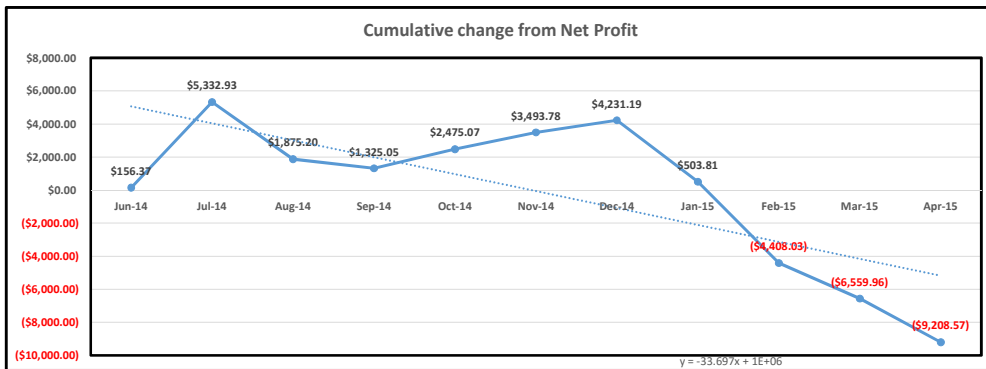


Figure 8

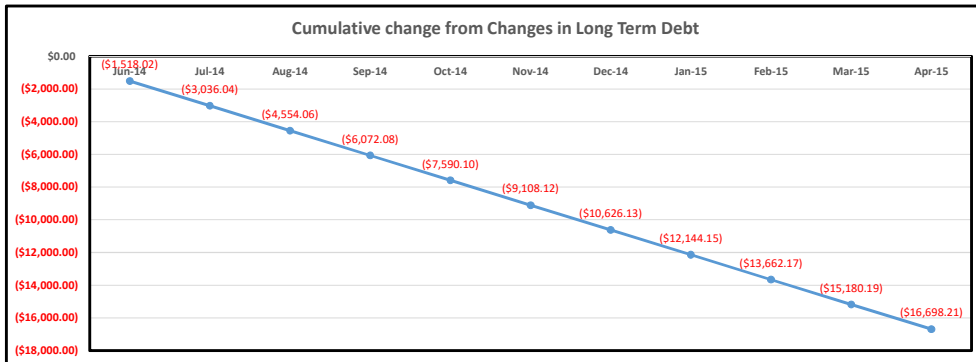


Figure 9

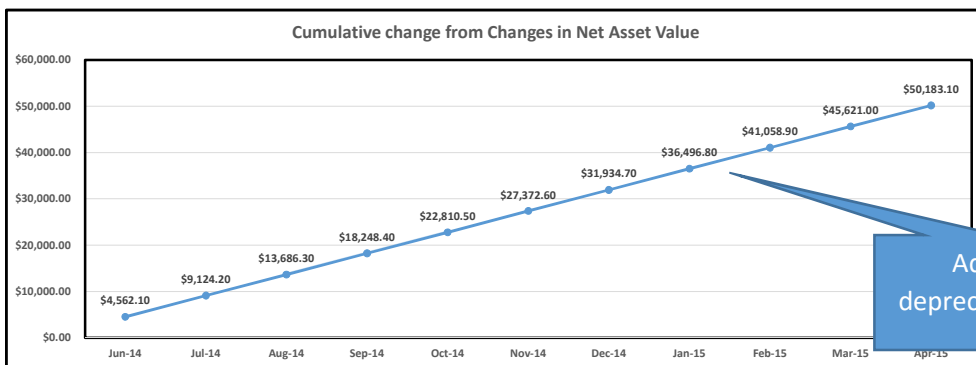
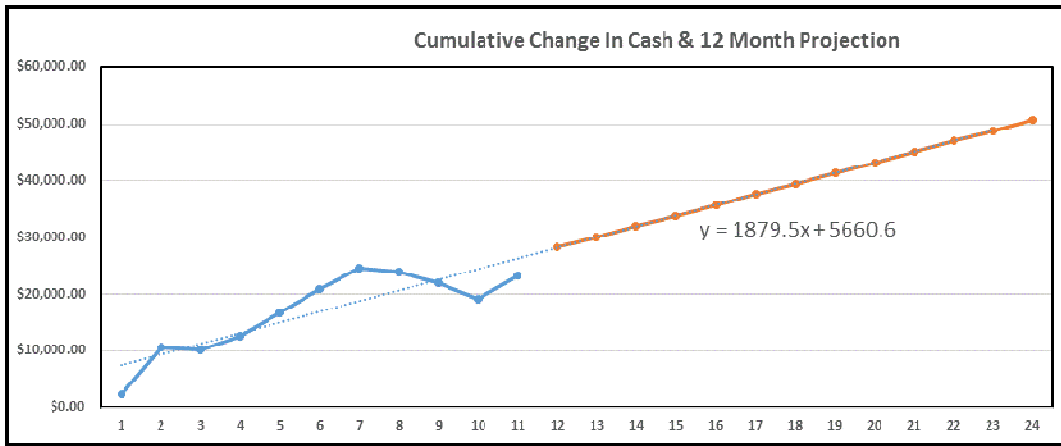


Figure 10

Adding back depreciation expense

Figure 11



The next chart in this presentation is a *Breakeven Analysis*. The breakeven analysis is a superb financial planning tool for small businesses in particular but any business generally. However this planning tool is only available to business owners who separate their fixed and variable costs on their P&L. Given this separation, the sales revenue at which a company’s profit equals zero—i.e., the breakeven point can be determined by simply dividing its fixed costs by the *Contribution Margin’s* percentage of sales revenue.

Figure 12

Breakeven Before Discretionary Costs			
Break Even Analysis			
<i>The light blue cells are for user data input. All remaining cells are protected</i>			
Break Even Analysis Based On:			
Billy Bob's Barbecue			
Sales Revenue Increments on Chart	\$10,000	←use larger sales increments for high sales volume businesses	
Contribution Margin's % of Sales Revenue	27.94%		
Fixed costs Before Discretionary Costs	\$7,656		

Figure 12 presents the top section of the breakeven chart where Billy Bob’s Barbecue’s Contribution Margin and Fixed Costs Before owner discretionary costs & non-cash charges are linked in from the current month’s P&L.

Figure 13

Fixed Costs =		\$7,656	
Contribution Margin =		27.94% of sales	
Break Even Sales =		\$27,398	
Proof:			
Sales =	27,398.22		
Minus variable costs of	-19,742.47	72.1% of sales	
Fixed Costs	<u>-7,655.75</u>		
Total	0.00		

Figure 13 presents the calculated breakeven sales which in this example is \$27,398 along with proof of that calculation.

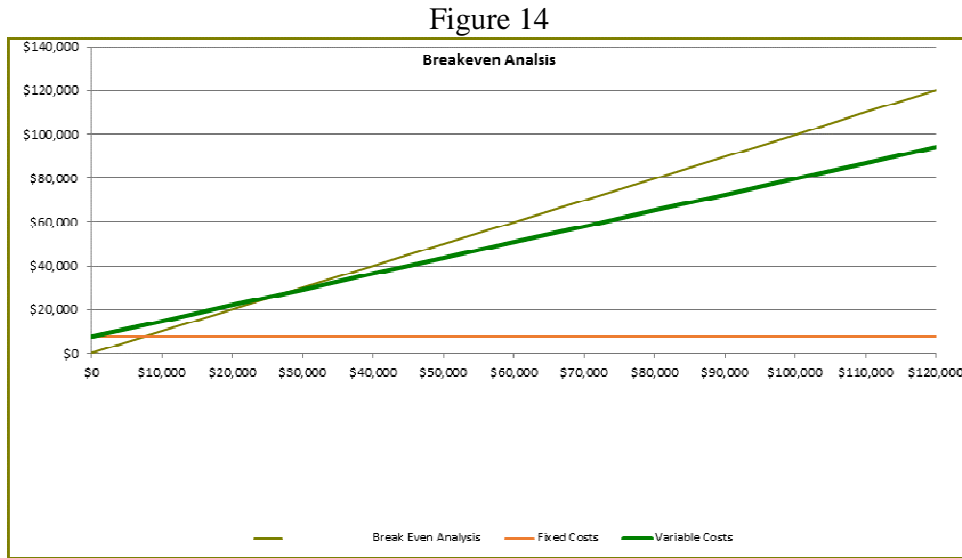


Figure 14 is a graphic presentation of Figure 13.

Figure 15

Breakeven Before Discretionary Costs				
Fixed Costs	Contribution Margin % of Sales per	Enter Actual Sales	Profit BDC	
\$7,655.75	27.94%	\$79,406.18	\$14,532.32	
Current Sales Above Break Even =		\$52,007.96	65.5%	18.3%

Figure 15 shows in dollars and in percentage terms how far above breakeven sales what current sales are as well as the current monthly profit before owner discretionary costs and non-cash charges.

Figure 16

Projections				
Fixed Costs Adjustment for sales increases			0.0%	of sales
	Fixed Costs Per	Contribution Margin % of Sales per	Sales Revenue per	Profit BDC
	Month	Month	Month	Month
1	\$7,656	27.94%	\$79,406.18	\$14,532.07
2	\$7,656	27.94%	\$84,406.18	\$15,929.20
3	\$7,656	27.94%	\$89,406.18	\$17,326.32
4	\$7,656	27.94%	\$94,406.18	\$18,723.45
5	\$7,656	27.94%	\$99,406.18	\$20,120.57

Figure 16 provides the opportunity for management to perform up to five different “what if” analyses. Here we see that the default data entries are the current fixed costs and current contribution margin’s percentage of sales revenue along with different sales volume. The right hand column then shows the profit before owner discretionary costs and non-cash charges will result from the differing sales level.

However, the real benefit obtainable from this section comes from varying the fixed costs and the contribution margin's percentage of sales revenue to reflect contemplated changes in the business model.

For example, suppose management wants to know what gross sales must be in order to earn a profit of \$20,000 instead of \$14,532.07 in the above example. To do this, simply add \$20,000 to total fixed costs of \$7,656 and divide that \$27,656 total by the contribution margin percent—in this case 27.94%.

Figure 17

	Fixed Costs Per	Contribution Margin % of Sales per	Sales Revenue per	Profit BDC
	Month	Month	Month	Month
1	\$27,656	27.94%	\$98,974.68	\$0.00

Here we see through trial and error different values are entered for sales revenue until we find a number that produces a profit of zero. (Actually this is done via Excel's *Solver* utility which will run several thousand trials per second searching for the number that will produce a value of zero in the right hand column).

For another example, let's say management is thinking of expanding the physical size of their store. They are considering enlarging it by 40% and the cost to do that will be \$150,000. They plan to finance the entire cost with monthly payments of \$3,000 a month for five years. How much must monthly sales increase in order to generate enough additional cash flow to make those payments? Simply divide this monthly payment by the contribution margin percent. In the above example, sales would have to increase by \$3,000 divided by .2794 or \$10,737.29 a month.

As a final demonstration let's say management has come up with an idea of how to reduce the firm's cost of goods sold by making some of the products that they are currently buying from a wholesaler. By doing this, they expect their cost of goods sold to decrease from 43.3% to 36.0% and labor to increase by 3% for a net savings of 4.3% of gross sales. However, they will have to purchase some manufacturing machinery which will require monthly payments of \$2,000.

Figure 18

Projections				
	Fixed Costs Adjustment for sales increases	0.0%	of sales	
	Fixed Costs Per	Contribution Margin % of Sales per	Sales Revenue per	Profit BDC
	Month	Month	Month	Month
1	\$7,656	27.94%	\$79,406.18	\$14,532.07
2	\$9,656	32.24%	\$79,406.18	\$15,946.54

In Figure 18 scenario 1 presents the current fixed costs, contribution margin's percent of sales revenue and the current revenue of \$79,406.18 which yields a profit before owner discretionary costs and non-cash charges of \$14,532.07. Scenario 2 presents the modified business model based on the data as described above. And here we see that the contemplated changes will yield additional profit of \$1,414.47 given the same sales revenue.

Subscribers to this service are always encouraged to submit “what if” scenarios in the format describe above along with their monthly financial statements. We will be happy to enter that data.

Figure 19 compares some key operating costs and balance sheet ratios with industry averages. Generally the differences at first glance will not appear to be significant. However apparent small differences can be quite large when measured against the company’s profitability. For example, this company’s Cost of Goods Sold is higher that its industry average by 2.59% and Direct Labor Cost is higher than its industry average by 4.26% for a combined difference of 6.85%. By dividing 6.86% by the Owner’s Discretionary Cash Flow’s ratio of 18.31% the result is 37.41%. Now, multiply the rolling 12 month total discretionary cash flow of \$160,804.51 by .3741 which equals \$60,156.97.

The balance sheet ratios in Figure 19 also provide some insight regarding the company’s efficiency when compared to industry averages. The number of days it takes to turn over the company’s inventory considered by itself doesn’t tell you much. However when compared to the industry average the ratio can tell you a lot. For example, if the subject company’s ratio is higher than the industry average it *may* suggest that the company runs out of some inventory from time to time and therewith loses sales. On the other hand, a ratio lower than the industry average *may suggest* that the company is carrying too much inventory which can cause loses due to damage from improper storage, obsolescence, pilferage, etc.

Figure 19

Industry Average Benchmarks			
	Rolling 12		Industry
Key Operating Costs	Mo. Avg		Averages
Cost of Goods Sold	43.66%		41.07%
Direct Labor	22.46%		18.20%
Advertising	4.07%		3.12%
Rent	7.51%		6.97%
Interest Expense	0.55%		1.00%
Owner's Discretionary Cash Flow	18.88%		8.95%
Key Balance Sheet Ratios			
Total Inventory Turn in days	11.66		15.99
Working Capital's % of Sales Revenue	64.60%		0.03%
Annual Sales Revenue ÷ FMV Fixed Assets	3.26		2.99
Annual Sales Revenue ÷ FMV Total Assets	2.60		2.25
Current Ratio	3.19		1.33
Quick Ratio	2.62		1.18
Equity's % of Capital Structure (based on the FMV of Total Assets)	61.00%		65.76%

The *Fair Market Value* of Fixed asset and total asset turnover ratios, i.e., sales revenue divided the asset values compared to industry averages *may* be an indication that the company has too much or too little invested in assets. The significance of this situation is

subtle. When it comes to valuing a business, the lower the investment in fixed assets required to produce a given cash flow, the more the company is worth. This is because net cash flow drives a business's value therefore the lower the amount of cash required for fixed asset replacements through the years, the greater will be net cash flow. The "fair market value of the firm's and industry average's fixed operating equipment is estimated by taking the average of the reported original cost and current net book value.

Figure 20

Altman Z Score	
Is the subject company a manufacturer? Y or N	N
Billy Bob's Barbecue	3.18
Green Zone: Financially sound if greater than	2.60
Yellow Zone: Time to take serious action	1.10 to 2.60
Red Zone: Likelihood of bankruptcy if less than	1.10

Figure 20 presents Billy Bob's Barbecue's Altman Z Score of 3.18. A company's z-score is a mathematical formula developed to predict the probability of a company filing for bankruptcy within the next two years. The most famous of the accounting-ratio-based models is the Altman z-score first published in 1968 and it was developed via advanced statistical analysis techniques. In its initial test, the Altman Z-Score was found to be 72% accurate in predicting bankruptcy two years prior to the event, with a Type II error (false positives) of 6% (Altman, 1968). In a series of subsequent tests covering three different time periods over the next 31 years (up until 1999), the model was found to be approximately 80-90% accurate in predicting bankruptcy one year prior to the event, with a Type II error (classifying the firm as bankrupt when it does not go bankrupt) of approximately 15-20%.

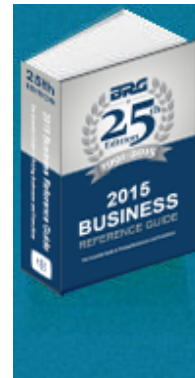
Figure 21

Billy Bob's Barbecue	12-Month Total
Net Pre-Tax Operating Income (Loss)	(\$8,029.13)
Add Back	
Depreciation & Amortization Expense	\$54,745.20
Interest on Bank Loan	\$4,796.78
Total Discretionary Fixed Costs	\$101,262.53
Owner's Discretionary Cash Flow	\$212,317.35

Figure 22

Most Probable Selling Price	
Billy Bob's Barbecue	12 Month Totals
Owner's Discretionary Cash Flow	\$212,317.35
Valuation Rule of Thumb Multiple Full Service Restaurants	
Low	1
Average	2
High	3
Most Probable Selling Price	
Low	\$212,317.35
Average	\$424,634.70
High	\$636,952.06
Current Assets Not Included In Selling Price	
	\$69,061.10
Enterprise Value	
Low	\$281,378.45
Average	\$493,695.81
High	\$706,013.16
Total Liabilities	
	\$206,394.42
Seller's Net Proceeds From Sale	
Low	\$74,984.04
Average	\$287,301.39
High	\$499,618.74

thumb and get a *rule-of-thumb* estimate for the company's most probable selling price. In the 2015 edition we find that the selling prices for full service restaurants are between 1 and 3 times owner's discretionary cash flow with an average value of 2. Thus we know that the most probable selling price for Billy Bob's Barbecue assuming it is average in all respects is approximately \$424,634. However, this is the midpoint of a fairly wide range which means that to the degree Billy Bob's Barbecue is above and/or below average along a host of assessment characteristics this baseline most probable selling price can be adjusted up and/or down to reflect the cumulative effect of its various positive and negative attributes.



We now come to the final and very useful bit of information that can be gleaned from our revised financial performance report. In Figure 21, previously

Figure 5, we see that the past twelve-month *Net Pre-Tax Operating Income (Loss)* is a negative \$8,029.12. To this amount we add back the non-cash charges for depreciation expense plus the interest expense plus Total Discretionary Fixed Costs. The sum of these add-backs is known as the *Owner's Discretionary Cash Flow*.

With the value of Owner's Discretionary Cash Flow in hand we can turn to the *Business Reference Guide*, the foremost authority on business value rules of

Original Income Statement Format

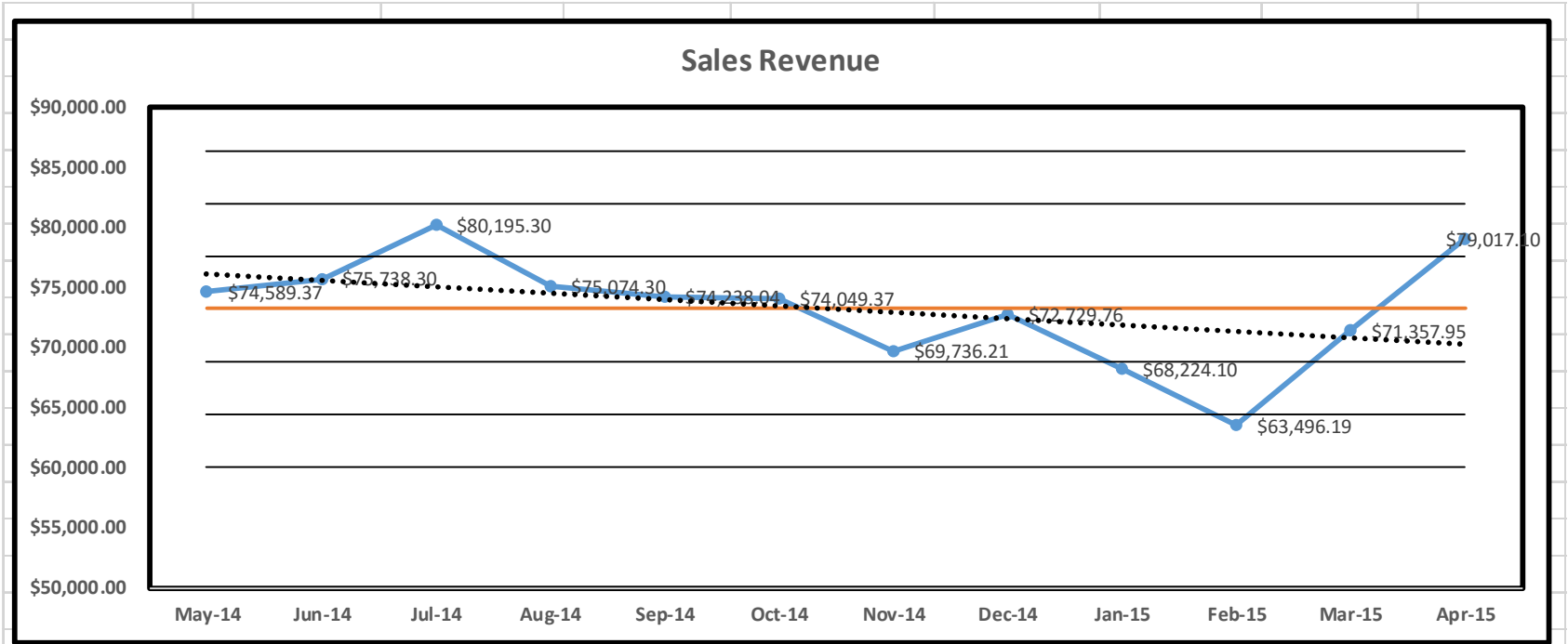
Billy Bob's Barbecue	Apr-15
Sales Revenue	
Food & Beverage Sales	\$84,548.29
Cost of Goods Sold	
Food cost	\$33,022.50
Beer & Wine	\$4,187.91
Total Cost of Goods Sold	\$37,210.41
Gross Profit	\$47,337.88
Bookkeeping & Accounting	\$250.00
Charitable Contributions	\$500.00
Cleaning Materials	\$452.45
Depreciation & Amortization Expense	\$4,562.10
Direct Labor	\$14,332.46
Direct Mail Advertising	\$149.87
Dues & Subscriptions	\$56.70
Employer's SSN	\$1,221.60
Federal Unemployment Insurance	\$114.09
Gain (loss) on sale of equipment	\$0.00
Interest on Bank Loan	\$378.22
Loss on sale of assets	\$0.00
Newspaper Advertising	\$1,548.38
Outside Maintenance	\$543.84
Overhead on Owner's Salary	\$770.00
Overtime Labor	\$945.27
Owner's Automobile Expenses	\$138.99
Owner's Health & Life Insurance	\$225.00
Owner's Salary	\$7,000.00
Property & Liability Insurance	\$397.03
Radio Advertising	\$1,422.84
Rent	\$5,500.00
Repairs	\$383.83
Sales Tax	\$5,531.20
Small Wares	\$226.22
State Unemployment Insurance	\$163.18
Travel & Entertainment	\$456.87
Utilities	\$1,508.72
Vacation Pay	\$766.65
Worker's Comp Insurance	\$401.10
Yellow Pages	\$39.88
Total Operating Costs	\$49,986.50
Pre-Tax Income (Loss)	-\$2,648.61

Billy Bob's Barbecue	Apr-15	
ASSETS		
Current Assets		
Cash	\$27,223.47	9.60%
Accounts Receivable	\$10,804.25	3.81%
Inventory	\$12,256.94	4.32%
Prepaid Expenses	<u>\$31,033.38</u>	10.94%
Total Current Assets	\$81,318.04	28.67%
Fixed Assets		
Machinery & Equipment	\$287,654.86	101.43%
Office Equipment	\$48,951.03	17.26%
Accumulated Depreciation	\$134,334.57	47.37%
Net Fixed Assets	<u>\$202,271.32</u>	71.33%
Total Assets	\$283,589.36	100.00%
LIABILITIES		
Current Liabilities		
Accounts Payable	\$21,885.09	7.72%
Wages Payable	\$2,916.63	1.03%
Other Payables	\$1,626.55	0.57%
Total Current Liabilities	\$26,428.26	9.32%
Long Term Liabilities		
Equipment Note to Wells Fargo	\$179,966.16	63.46%
Total Long Term Liabilities	\$179,966.16	63.46%
Total Liabilities	\$206,394.42	72.78%
OWNERS EQUITY		
Original Investment	\$75,000.00	26.45%
Retained Earnings	\$2,194.95	0.77%
Total Owners Equity	\$77,194.95	27.22%
Total Owners Equity & Liabilities	\$283,589.36	100.00%

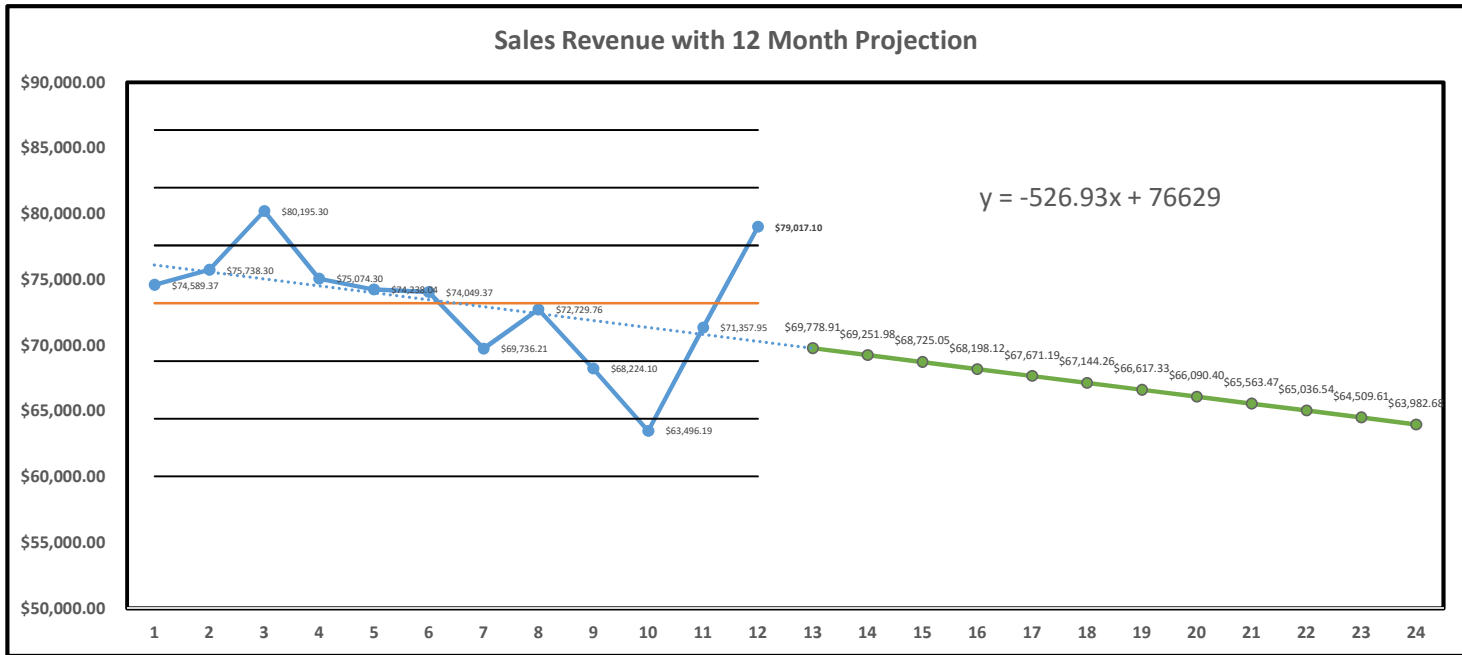
Revised Income Statement Format

Billy Bob's Barbecue	April 2015	April 2015
Sales Revenue		
Food & Beverage Sales	\$84,548.29	107.00%
Sales Tax	\$5,531.20	7.00%
Total Revenue (net of sales tax)	\$79,017.10	100.00%
Cost of Goods Sold		
Food cost	\$33,022.50	41.79%
Beer & Wine	\$4,187.91	5.30%
Total Cost of Goods Sold	\$37,210.41	47.09%
Gross Profit	\$41,806.69	52.91%
Direct Labor Cost		
Direct Labor	\$14,332.46	18.14%
Overtime Labor	\$945.27	1.20%
Vacation Pay	\$766.65	0.97%
Employer's SSN	\$1,221.60	1.55%
State Unemployment Insurance	\$163.18	0.21%
Federal Unemployment Insurance	\$114.09	0.14%
Worker's Comp Insurance	\$401.10	0.51%
Total Direct Labor Cost	\$17,944.35	22.71%
Total Prime Costs	\$55,154.76	69.80%
Gross Margin	\$23,862.33	30.20%
Marketing		
Newspaper Advertising	\$1,548.38	1.96%
Radio Advertising	\$1,422.84	1.80%
Yellow Pages	\$39.88	0.05%
Direct Mail Advertising	\$149.87	0.19%
Total Marketing Expenses	\$3,160.97	4.00%
Other Variable Costs		
Cleaning Materials	\$452.45	0.57%
Small Wares	\$226.22	0.29%
Outside Maintenance	\$543.84	0.69%
Repairs	\$383.83	0.49%
Total Other Variable Costs	\$1,606.35	2.03%
Total Variable Costs	\$59,922.08	75.83%
Contribution Margin	\$19,095.01	24.17%

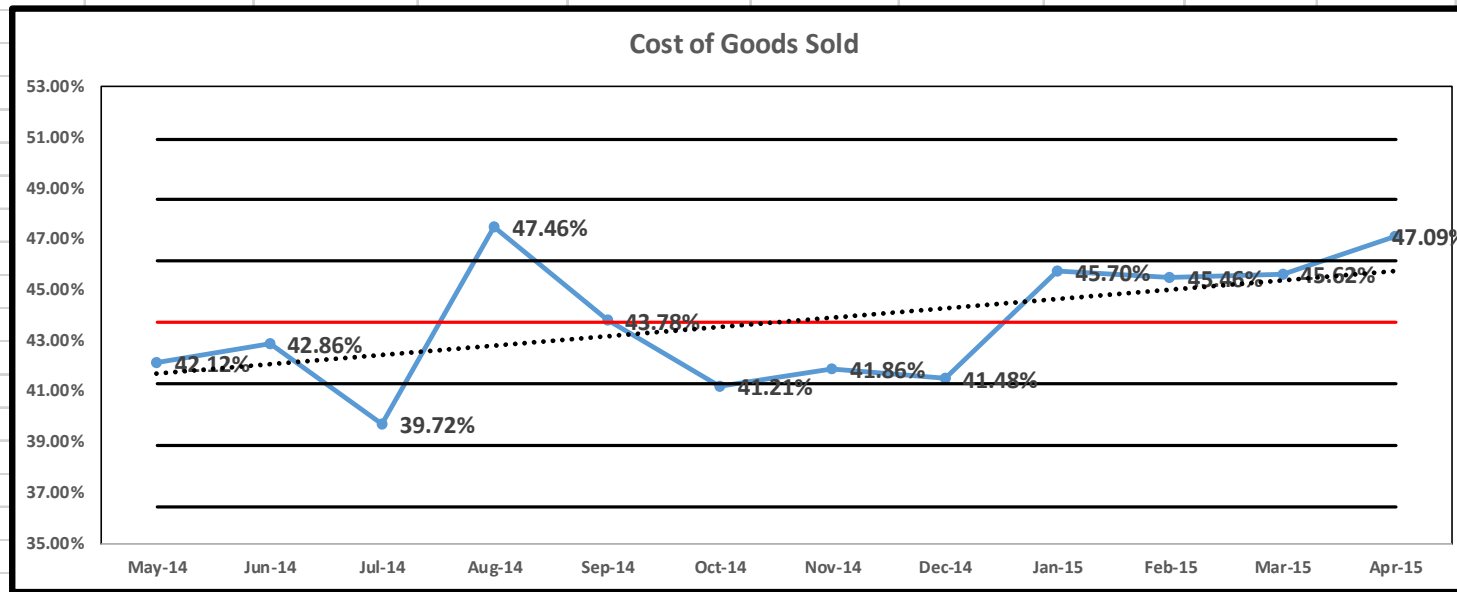
Non-Discretionary Fixed Costs		
Rent	\$5,500.00	6.96%
Utilities	\$1,508.72	1.91%
Property & Liability Insurance	\$397.03	0.50%
Bookkeeping & Accounting	\$250.00	0.32%
Depreciation & Amortization Expense	\$4,562.10	5.77%
Interest on Bank Loan	\$378.22	0.48%
Total Non-Discretionary Fixed Costs	\$12,596.07	15.94%
Total Operating Costs Before Discretionary Costs	\$72,518.15	91.27%
Operating Profit before Discretionary Costs	\$6,498.95	8.73%
Discretionary Fixed Costs		
Owner's Salary	\$7,000.00	8.86%
Overhead on Owner's Salary	\$770.00	0.97%
Owner's Health & Life Insurance	\$225.00	0.28%
Owner's Automobile Expenses	\$138.99	0.18%
Travel & Entertainment	\$456.87	0.58%
Dues & Subscriptions	\$56.70	0.07%
Charitable Contributions	\$500.00	0.63%
Total Discretionary Fixed Costs	\$9,147.56	10.94%
Total Fixed Costs	\$21,743.63	26.88%
Total Operating Costs	\$81,665.71	102.21%
Net Operating Income (Loss)	(\$2,648.61)	-2.21%
Other Income		
Other Income	\$0.00	
Gain (loss) on sale of equipment	\$0.00	0.00%
Loss on sale of assets	\$0.00	0.00%
Total Other Income or Expenses	\$0.00	0.00%
Pre-Tax Income (Loss)	(\$2,648.61)	-2.21%



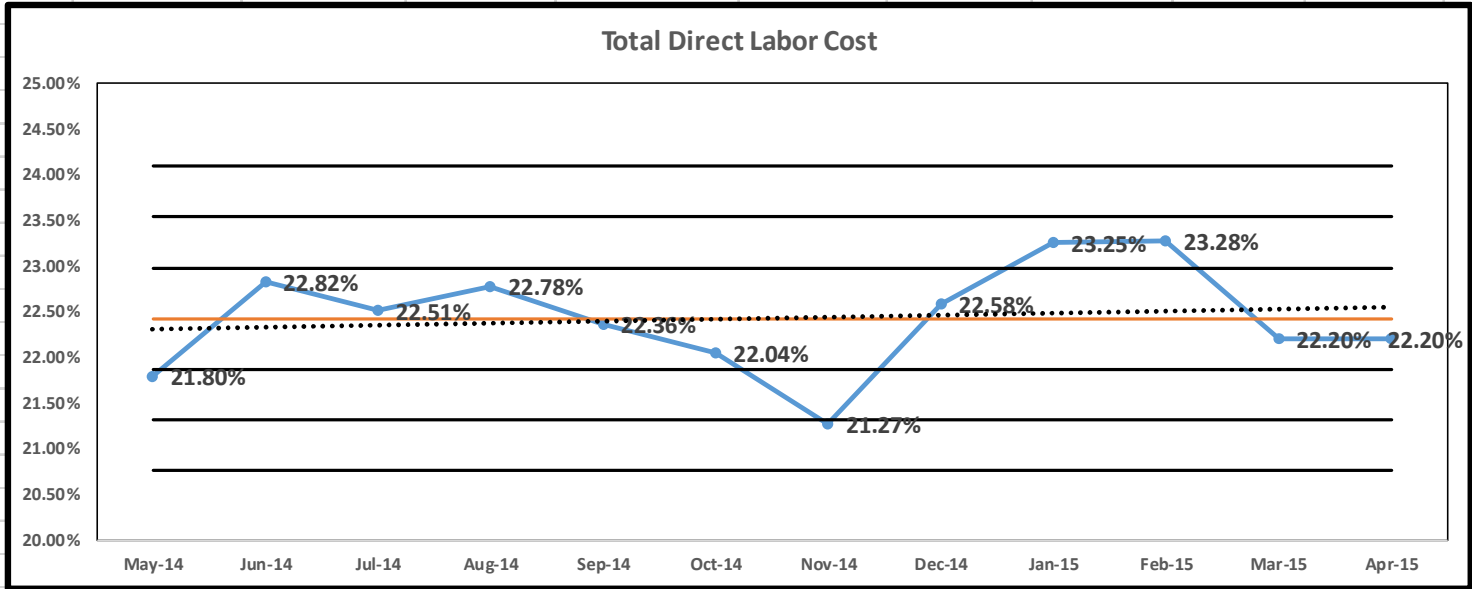
Highest Value	\$80,195
Lowest Value	\$63,496
Average Value	\$73,204
High-Low Spread	\$6,991
12 Month Growth Rate	5.94%



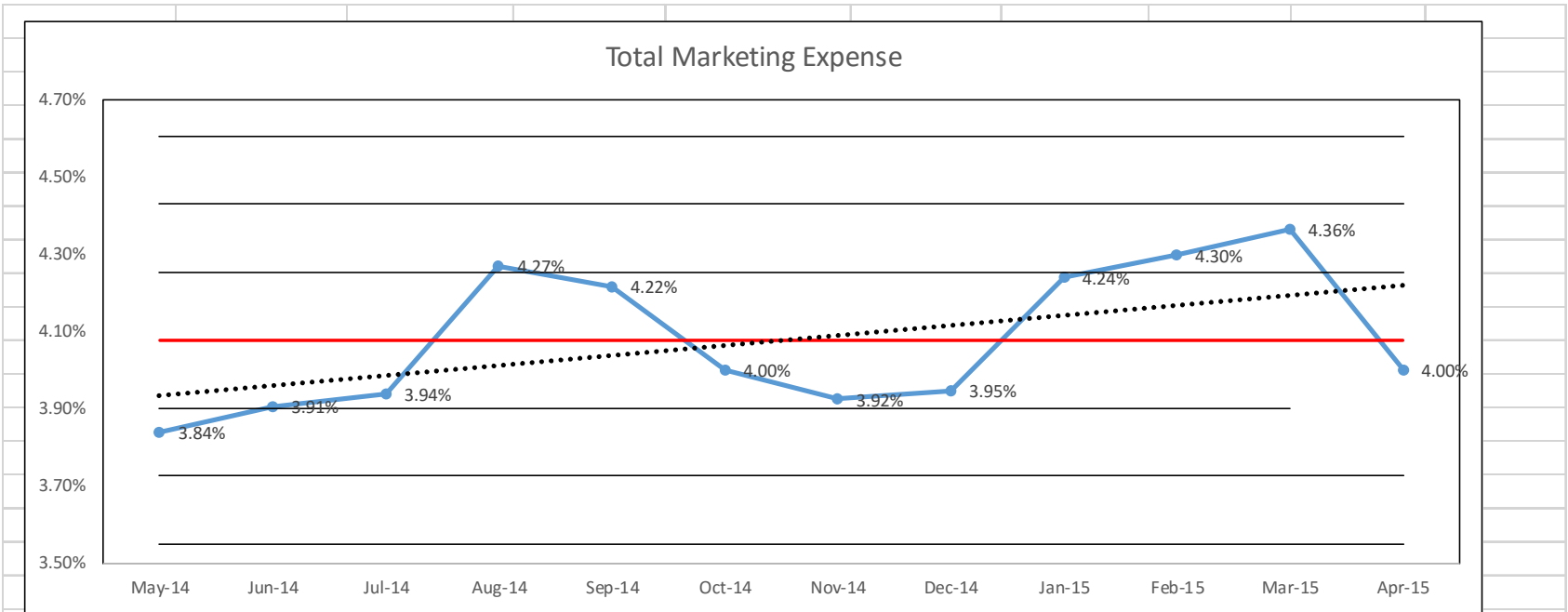
Apr-15	\$79,017
May-15	\$69,779
Jun-15	\$69,252
Jul-15	\$68,725
Aug-15	\$68,198
Sep-15	\$67,671
Oct-15	\$67,144
Nov-15	\$66,617
Dec-15	\$66,090
Jan-16	\$65,563
Feb-16	\$65,037
Mar-16	\$64,510
Apr-16	\$63,983



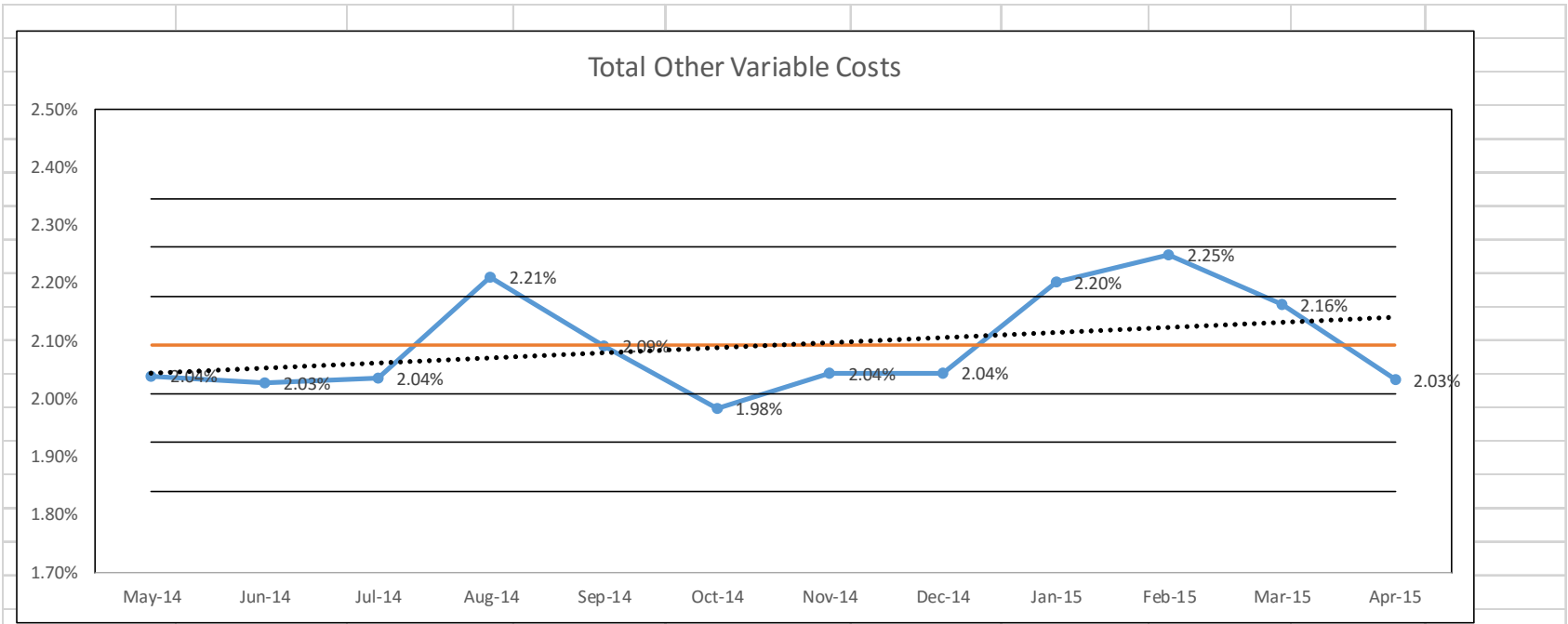
Coefficient of Variation	5.53%
Highest Value	47.46%
Lowest Value	39.72%
Average Value	43.70%
Hi-Low Spread	7.75%
12-Month growth rate	1.84%



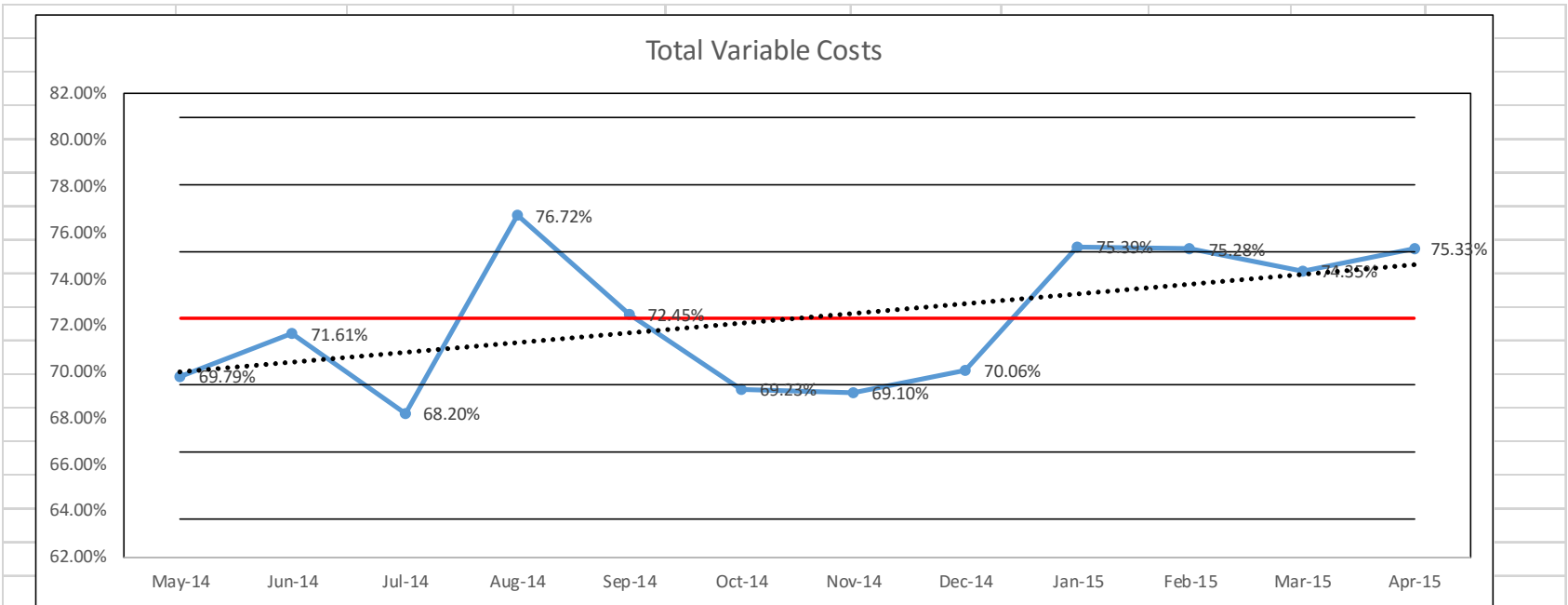
Coefficient of Variation	2.47%
Highest Value	23.28%
Lowest Value	21.27%
Average Value	22.42%
Hi-Low Spread	2.00%
12-Month growth rate	1.84%



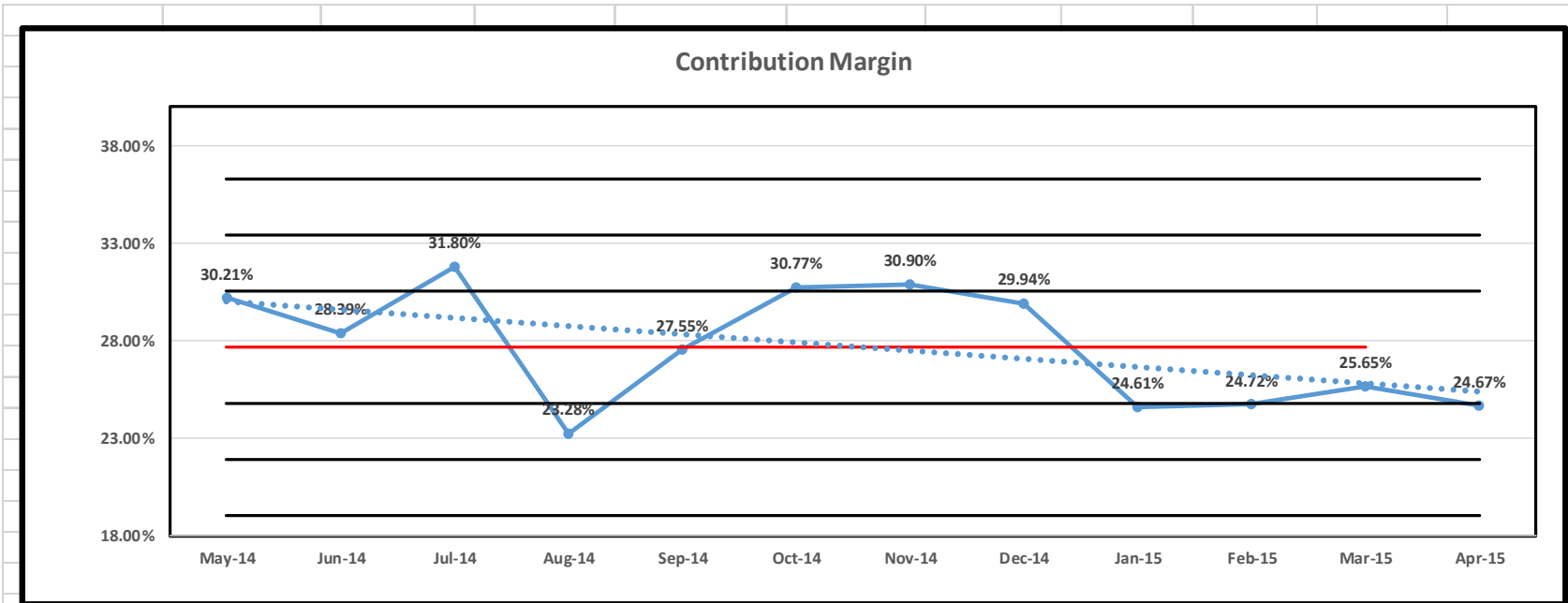
Coefficient of Variation	4.32%
Highest Value	4.36%
Lowest Value	3.84%
Average Value	4.08%
Hi-Low Spread	0.53%
12-Month growth rate	13.73%



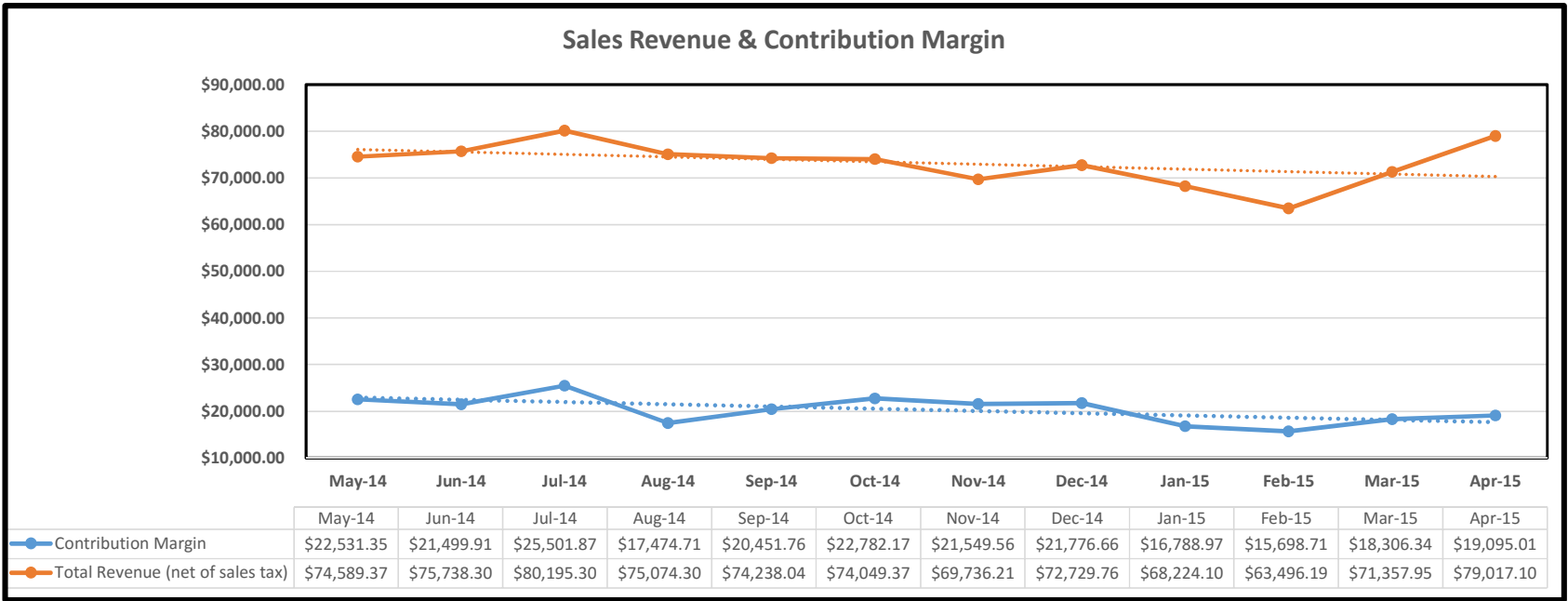
Coefficient of Variation	4.03%
Highest Value	2.25%
Lowest Value	1.98%
Average Value	2.09%
Hi-Low Spread	0.27%
12-Month growth rate	6.00%

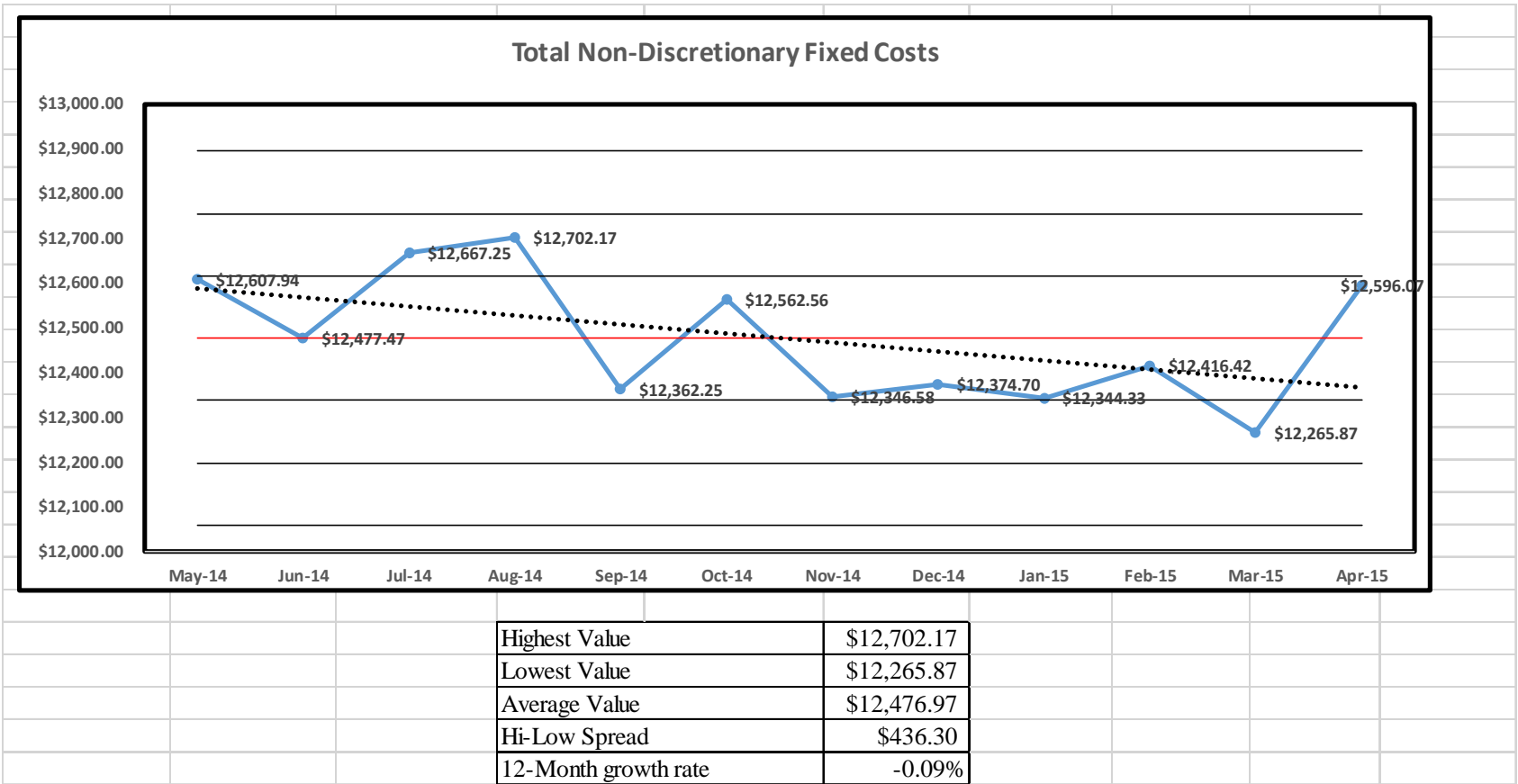


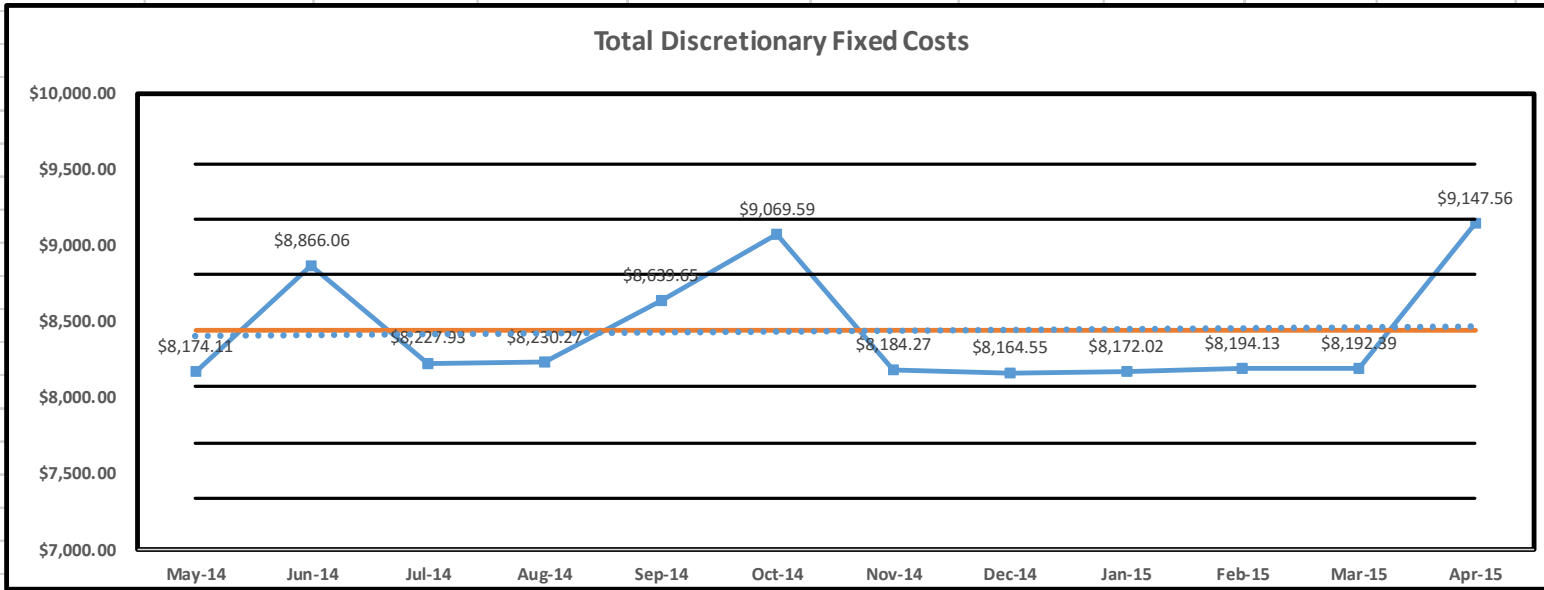
Coefficient of Variation	3.99%
Highest Value	76.72%
Lowest Value	68.20%
Average Value	72.29%
Hi-Low Spread	8.52%
12-Month growth rate	6.52%



Highest Value	31.80%
Lowest Value	23.28%
Average Value	27.71%
Hi-Low Spread	8.52%
12-Month growth rate	-22.43%



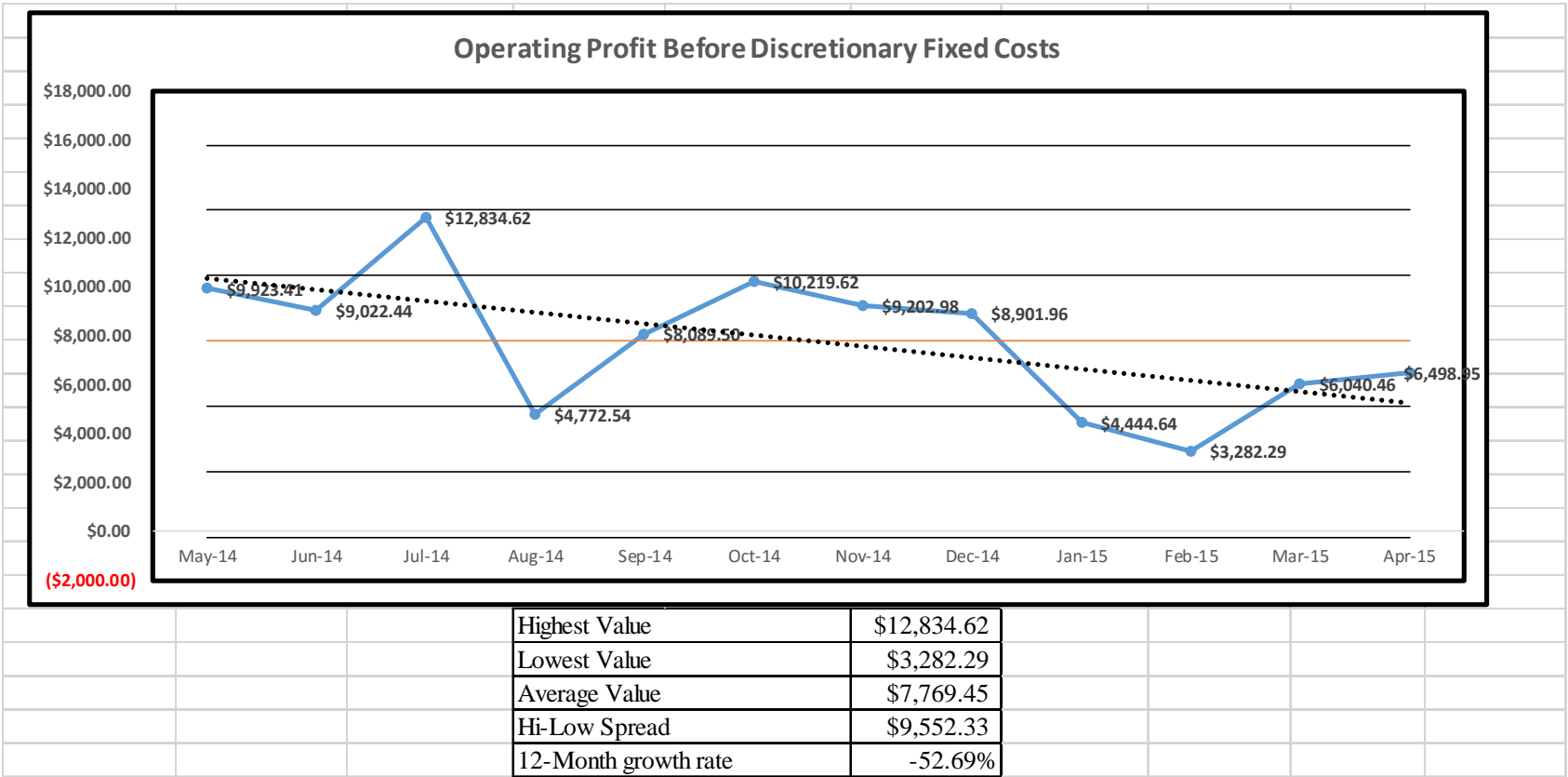


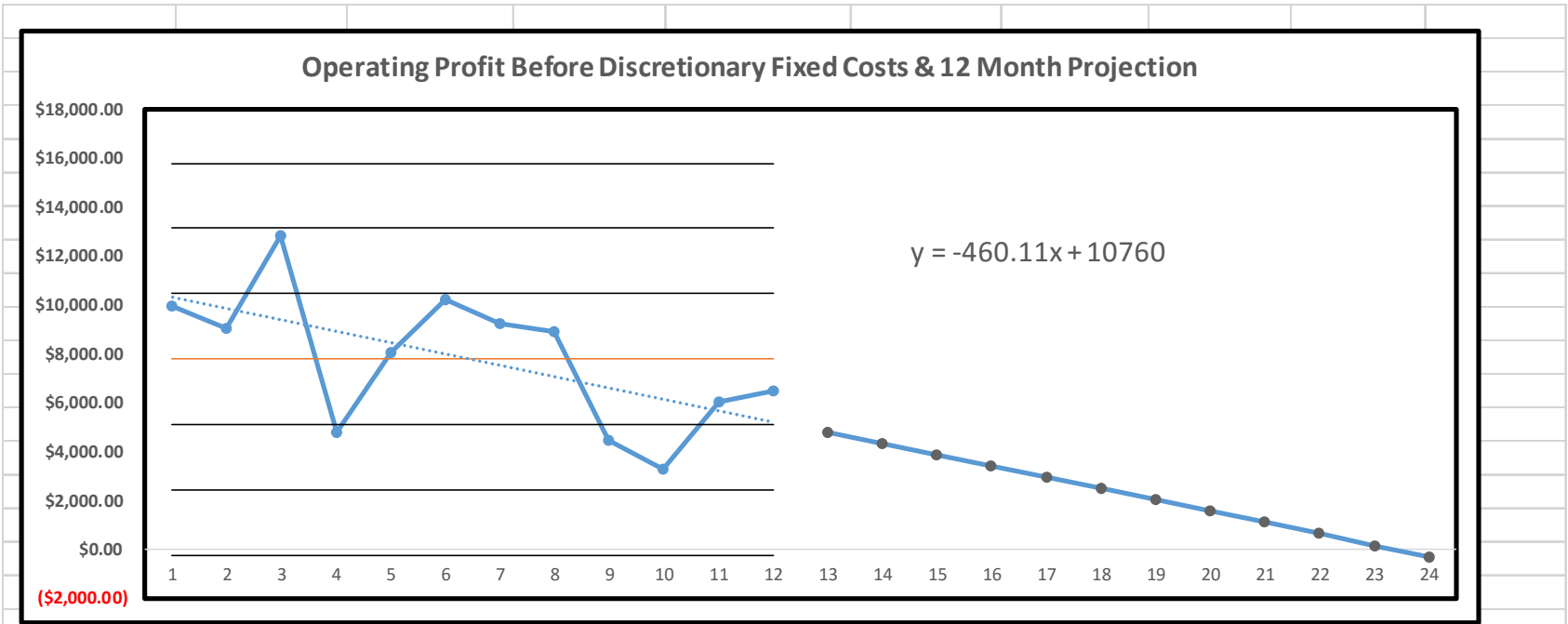


Highest Value	\$9,147.56
Lowest Value	\$8,164.55
Average Value	\$8,438.54
Hi-Low Spread	\$983.01
12-Month growth rate	10.64%

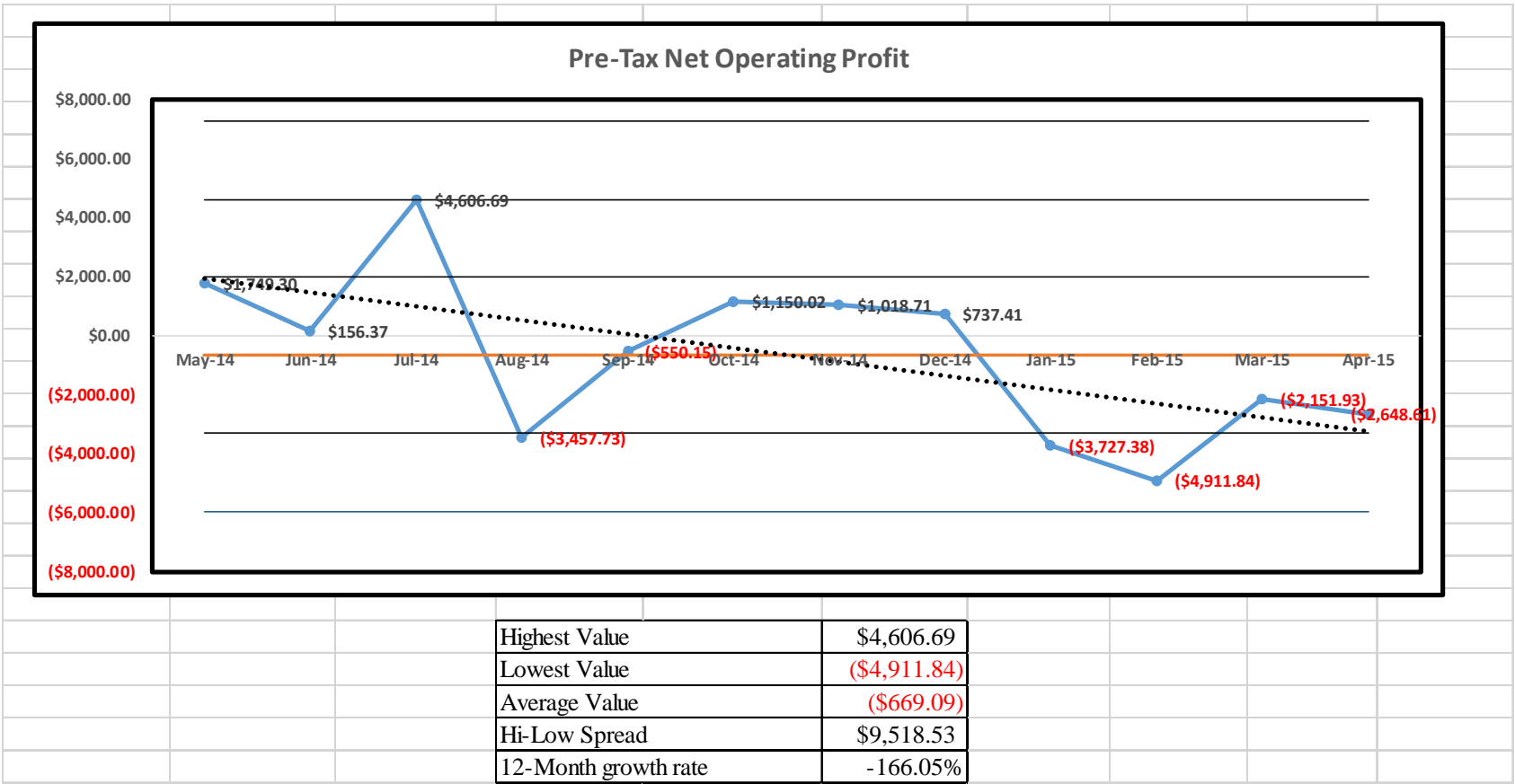
Volatility Analysis

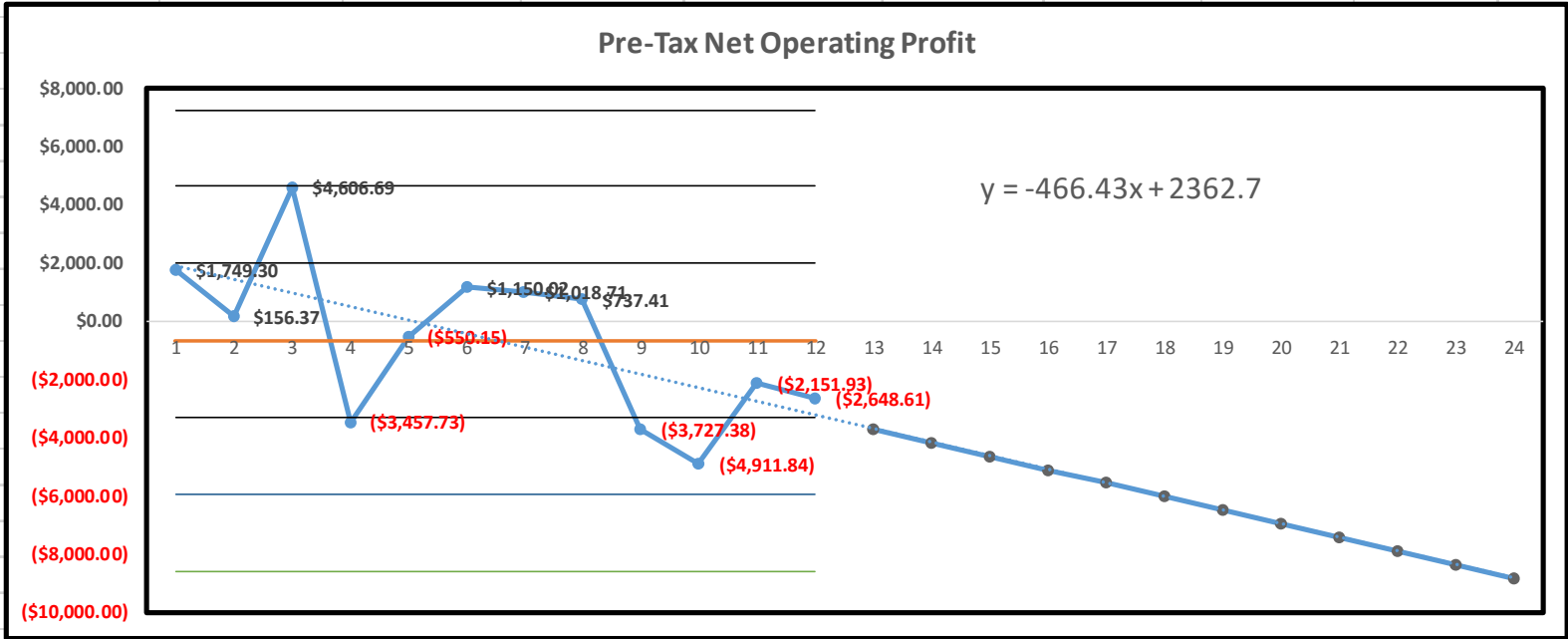
Billy Bob's Barbecue	Apr-15	12 Month Avg	Coefficient of Variation			
Sales Revenue						
Food & Beverage Sales	107.00%	107.00%				
Sales Tax	7.00%	7.00%				
Total Revenue (net of sales tax)	100.00%	100.00%				
Cost of Goods Sold						
				High	Low	Spread
Food cost	41.79%	38.26%	0.057	41.79%	34.66%	7.13%
Beer & Wine	5.30%	5.43%	0.042	5.95%	5.05%	0.90%
Total Cost of Goods Sold	47.09%	43.70%	0.053	47.46%	39.72%	7.75%
Gross Profit	52.91%	56.30%				
Direct Labor Cost						
Direct Labor	18.14%	17.97%	0.026	18.62%	16.89%	1.72%
Overtime Labor	1.20%	1.21%	0.033	1.26%	1.12%	0.15%
Vacation Pay	0.97%	0.90%	0.048	0.97%	0.83%	0.14%
Employer's SSN	1.55%	1.50%	0.044	1.59%	1.38%	0.22%
State Unemployment Insurance	0.21%	0.21%	0.053	0.24%	0.20%	0.05%
Federal Unemployment Insurance	0.14%	0.14%	0.035	0.16%	0.13%	0.02%
Worker's Comp Insurance	0.51%	0.53%	0.042	0.57%	0.51%	0.07%
Total Direct Labor Cost	22.71%	22.47%	0.024	23.28%	21.27%	2.00%
Total Prime Costs	69.80%	71.83%	0.037	76.72%	68.20%	8.52%
Gross Margin	30.20%	28.17%				
Marketing						
Newspaper Advertising	1.96%	1.97%	0.052	2.12%	1.82%	0.30%
Radio Advertising	1.80%	1.85%	0.035	1.99%	1.77%	0.22%
Yellow Pages	0.05%	0.05%	0.048	0.05%	0.05%	0.01%
Direct Mail Advertising	0.19%	0.20%	0.040	0.21%	0.19%	0.02%
Total Marketing Expenses	4.00%	4.08%	0.041	4.36%	3.84%	0.53%
Other Variable Costs						
Cleaning Materials	0.57%	0.61%	0.054	0.66%	0.57%	0.09%
Small Wares	0.29%	0.28%	0.044	0.30%	0.27%	0.03%
Outside Maintenance	0.69%	0.70%	0.046	0.78%	0.63%	0.15%
Repairs	0.49%	0.50%	0.043	0.54%	0.46%	0.08%
Total Other Variable Costs	2.03%	2.09%	0.039	2.25%	1.98%	0.27%
Total Variable Costs	75.83%	72.33%	0.039	76.72%	68.20%	8.52%
Contribution Margin	24.17%	27.67%				





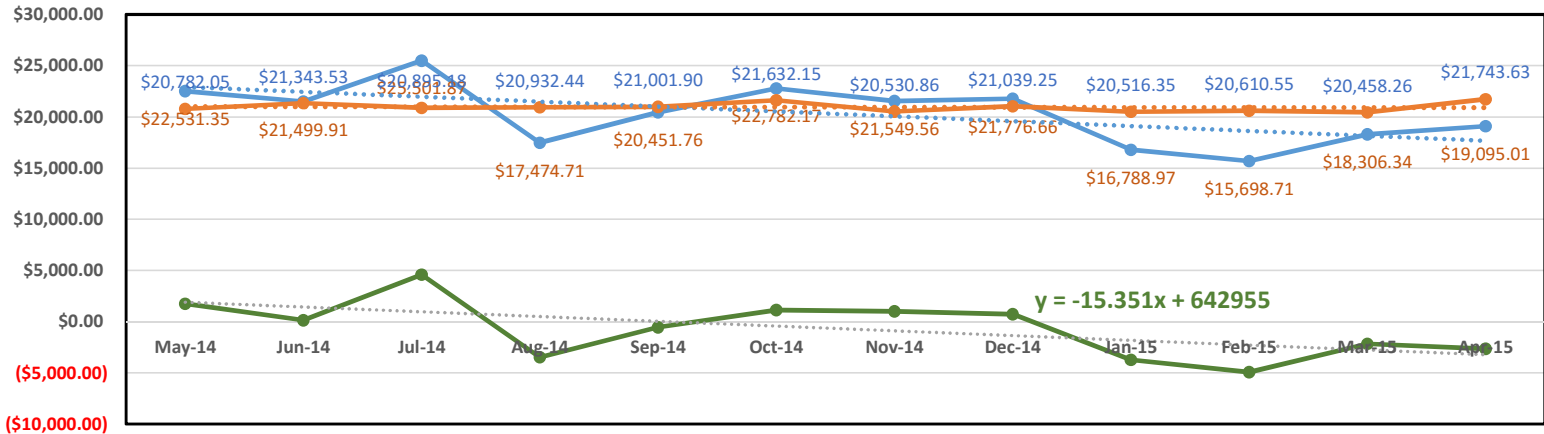
Projection	
May-15	\$4,778.57
Jun-15	\$4,318.46
Jul-15	\$3,858.35
Aug-15	\$3,398.24
Sep-15	\$2,938.13
Oct-15	\$2,478.02
Nov-15	\$2,017.91
Dec-15	\$1,557.80
Jan-16	\$1,097.69
Feb-16	\$637.58
Mar-16	\$177.47
Apr-16	(\$282.64)



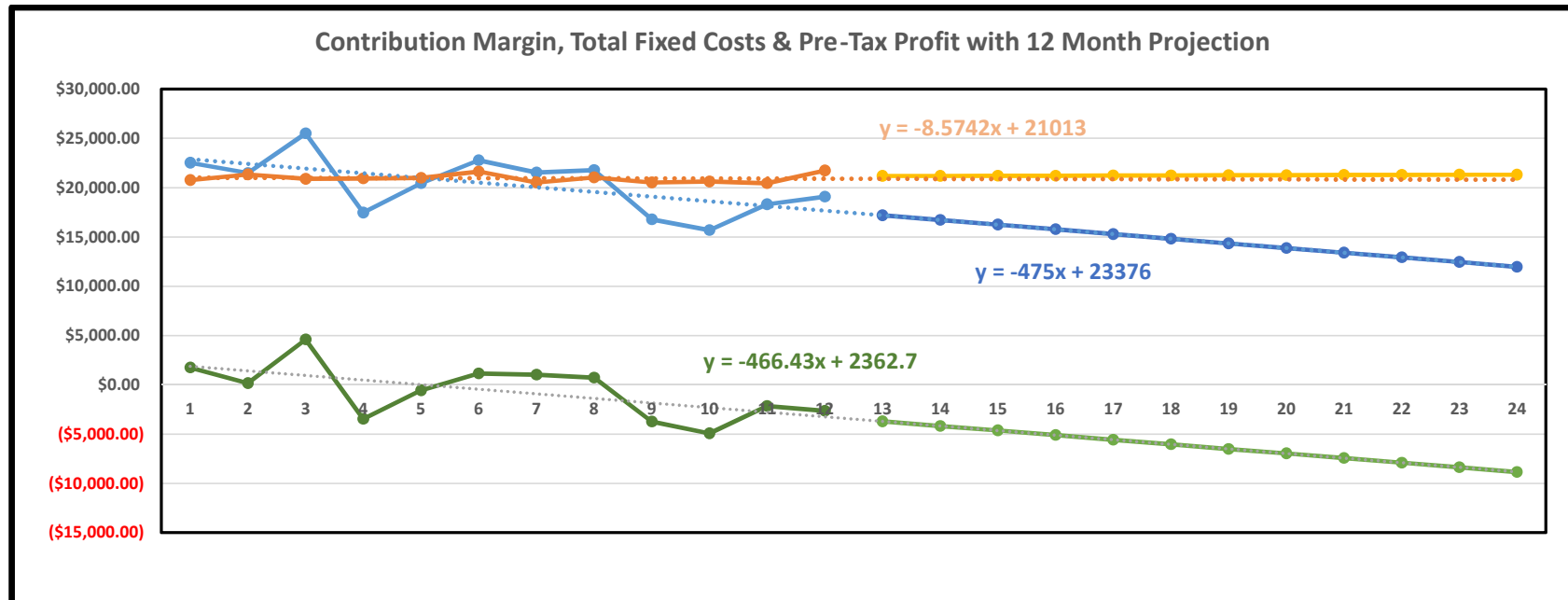


Projection	
May-15	(\$3,700.89)
Jun-15	(\$4,167.32)
Jul-15	(\$4,633.75)
Aug-15	(\$5,100.18)
Sep-15	(\$5,566.61)
Oct-15	(\$6,033.04)
Nov-15	(\$6,499.47)
Dec-15	(\$6,965.90)
Jan-16	(\$7,432.33)
Feb-16	(\$7,898.76)
Mar-16	(\$8,365.19)
Apr-16	(\$8,831.62)

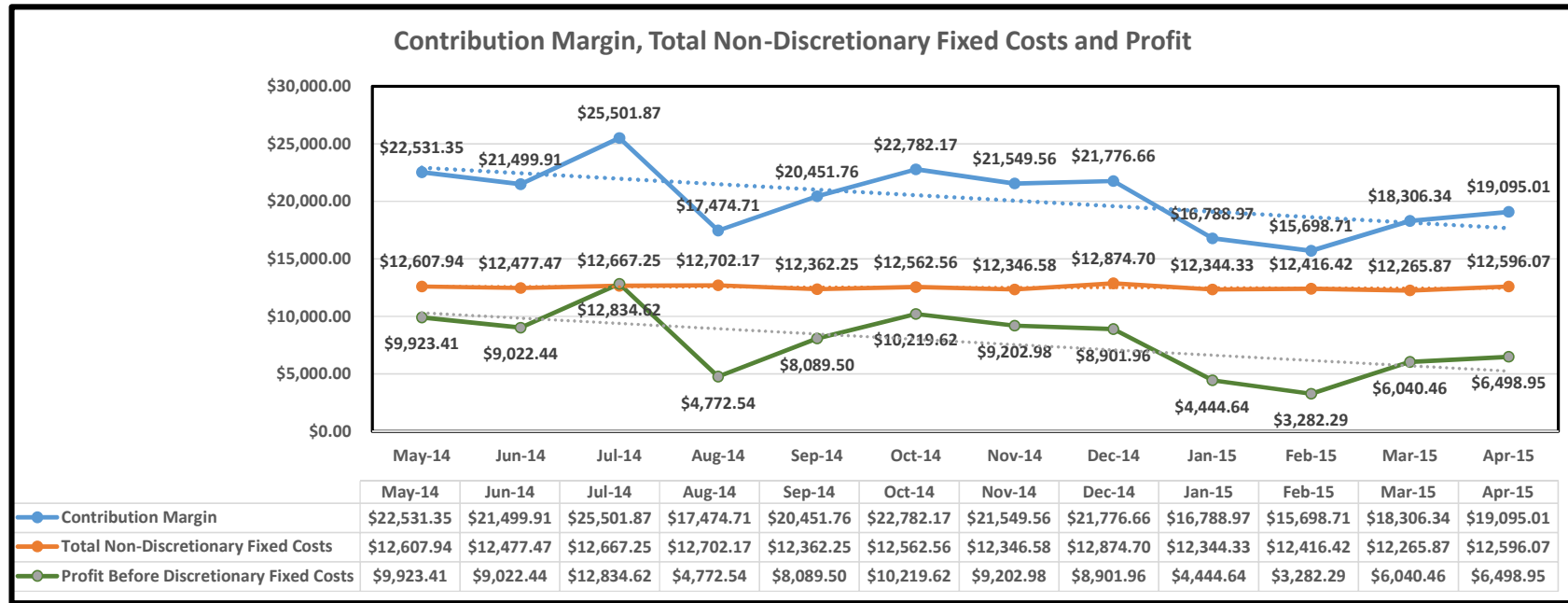
Contribution Margin, Total Fixed Costs and Pre-Tax Profit

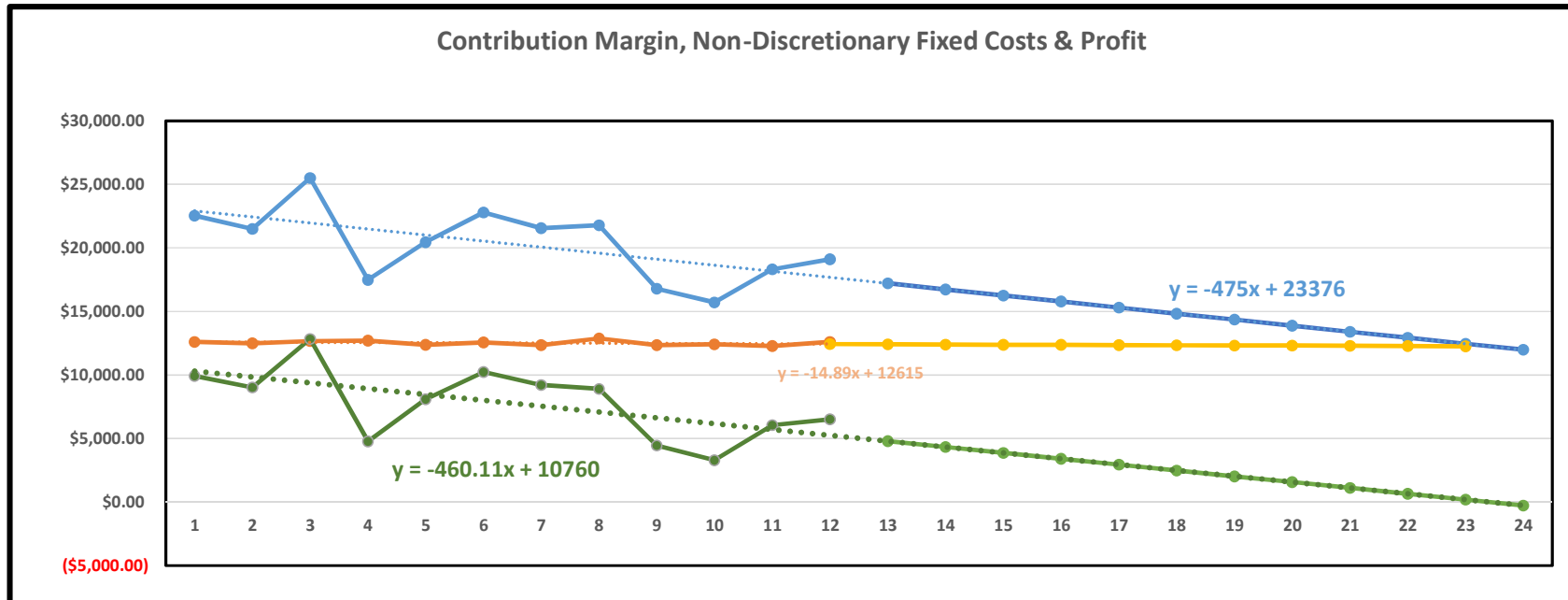


	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Contribution Margin	\$22,531.35	\$21,499.91	\$25,501.87	\$17,474.71	\$20,451.76	\$22,782.17	\$21,549.56	\$21,776.66	\$16,788.97	\$15,698.71	\$18,306.34	\$19,095.01
Total Fixed Costs	\$20,782.05	\$21,343.53	\$20,895.18	\$20,932.44	\$21,001.90	\$21,632.15	\$20,530.86	\$21,039.25	\$20,516.35	\$20,610.55	\$20,458.26	\$21,743.63
Profit	\$1,749.30	\$156.37	\$4,606.69	(\$3,457.73)	(\$550.15)	\$1,150.02	\$1,018.71	\$737.41	(\$3,727.38)	(\$4,911.84)	(\$2,151.93)	(\$2,648.61)

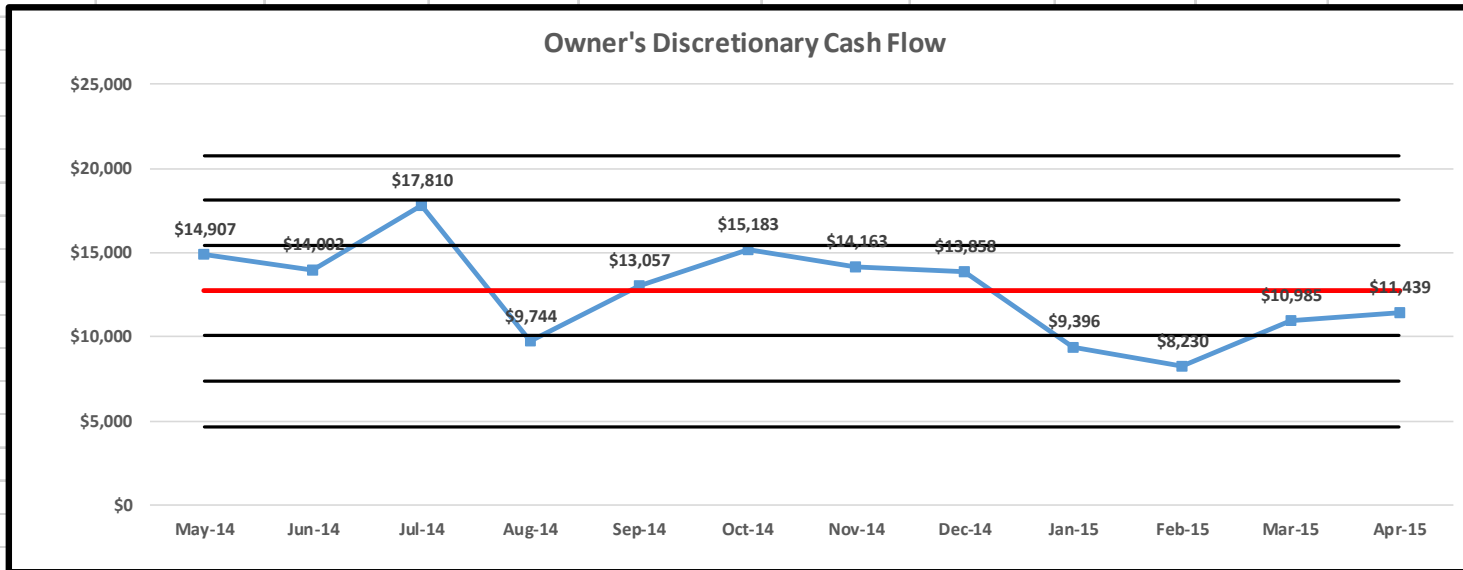


Projections	Contribution		
for	Margin	Fixed Costs	Profit
May-15	\$17,201	\$20,902	(\$3,701)
Jun-15	\$16,726	\$20,893	(\$4,167)
Jul-15	\$16,251	\$20,884	(\$4,633)
Aug-15	\$15,776	\$20,876	(\$5,100)
Sep-15	\$15,301	\$20,867	(\$5,566)
Oct-15	\$14,826	\$20,859	(\$6,033)
Nov-15	\$14,351	\$20,850	(\$6,499)
Dec-15	\$13,876	\$20,842	(\$6,966)
Jan-16	\$13,401	\$20,833	(\$7,432)
Feb-16	\$12,926	\$20,824	(\$7,898)
Mar-16	\$12,451	\$20,816	(\$8,365)
Apr-16	\$11,976	\$20,807	(\$8,831)

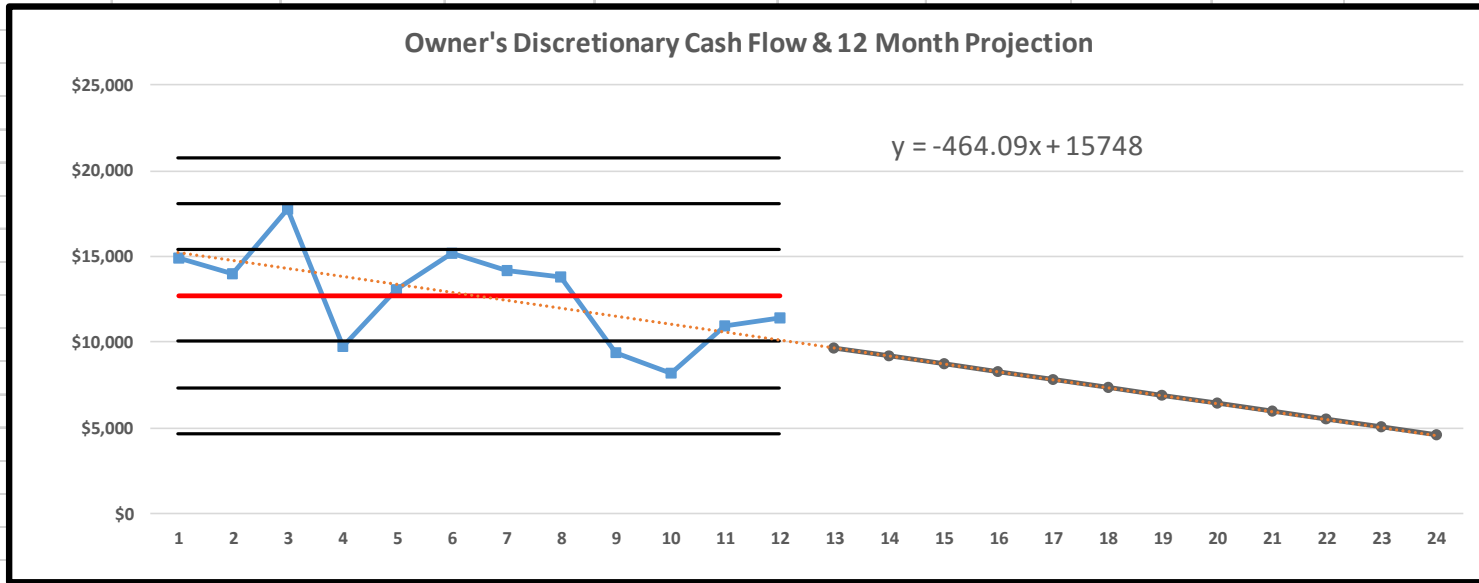




Projections	Contribution		
for	Margin	Fixed Costs	Profit
May-15	\$17,201	\$12,421	\$4,780
Jun-15	\$16,726	\$12,407	\$4,319
Jul-15	\$16,251	\$12,392	\$3,859
Aug-15	\$15,776	\$12,377	\$3,399
Sep-15	\$15,301	\$12,362	\$2,939
Oct-15	\$14,826	\$12,347	\$2,479
Nov-15	\$14,351	\$12,332	\$2,019
Dec-15	\$13,876	\$12,317	\$1,559
Jan-16	\$13,401	\$12,302	\$1,099
Feb-16	\$12,926	\$12,287	\$639
Mar-16	\$12,451	\$12,273	\$178
Apr-16	\$11,976	\$12,258	(\$282)



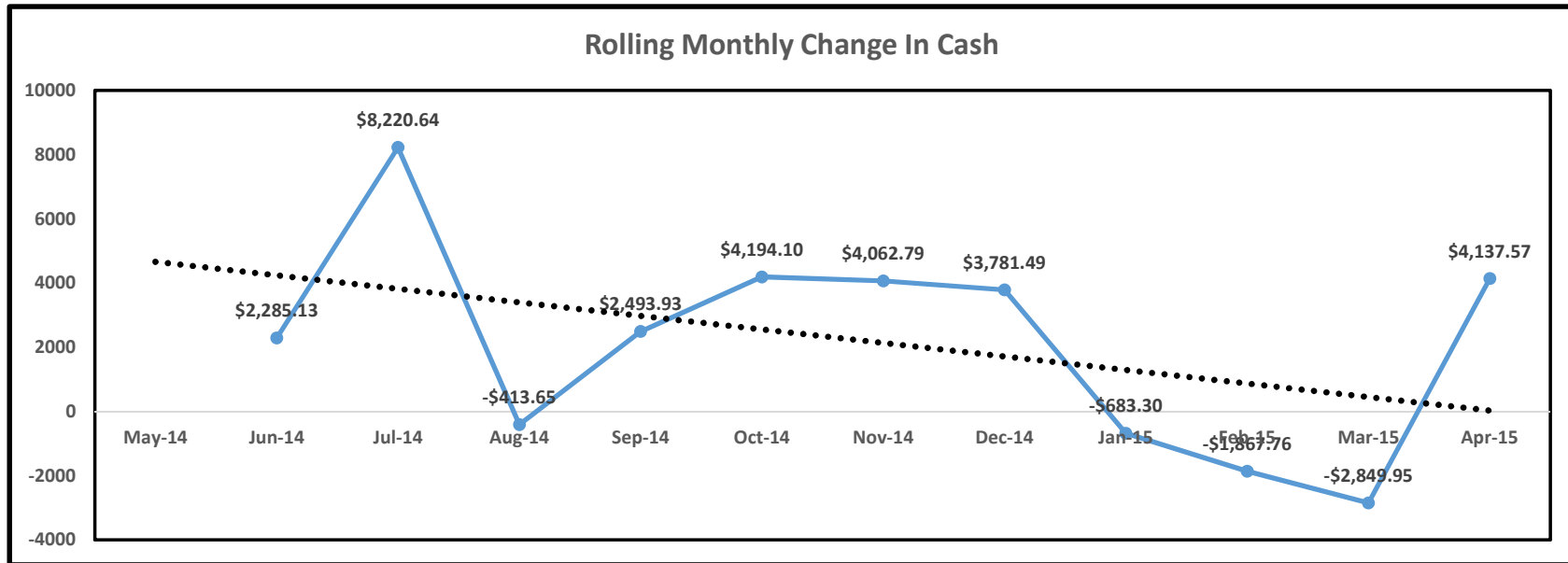
Highest Value	\$17,810.37
Lowest Value	\$8,230.21
Average Value	\$12,731.28
Hi-Low Spread	\$9,580.16
12-Month growth rate	-30.32%

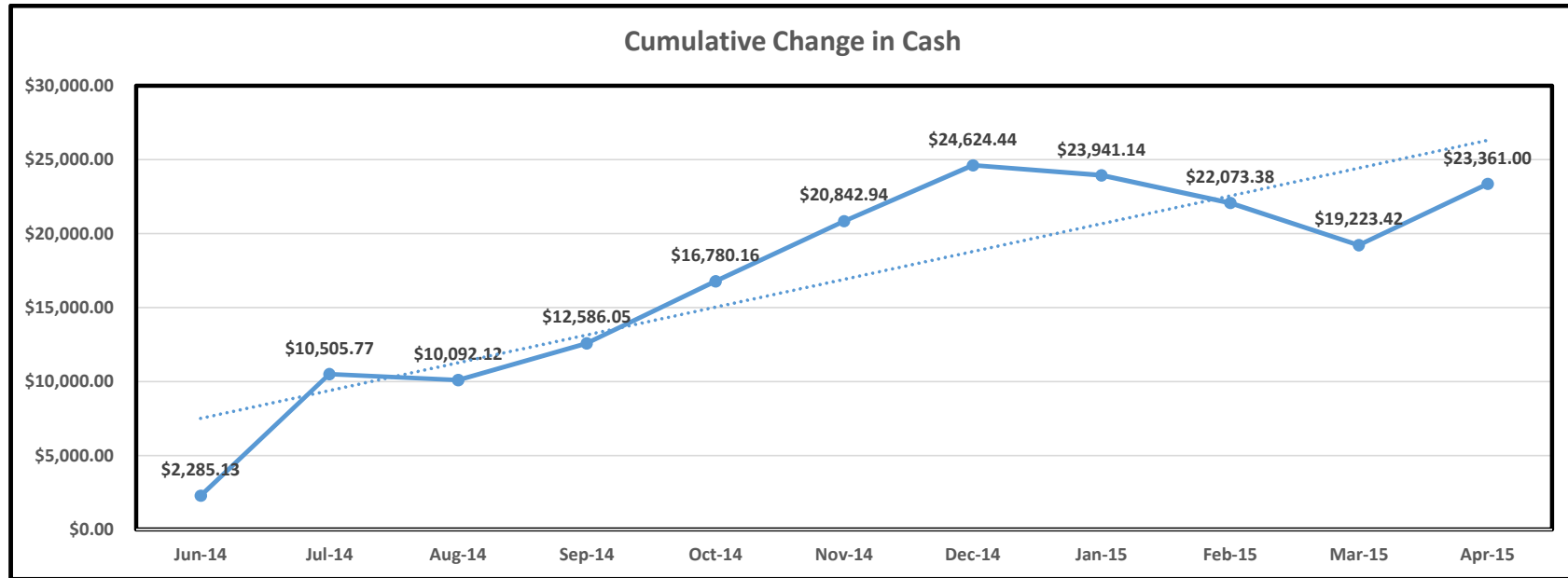


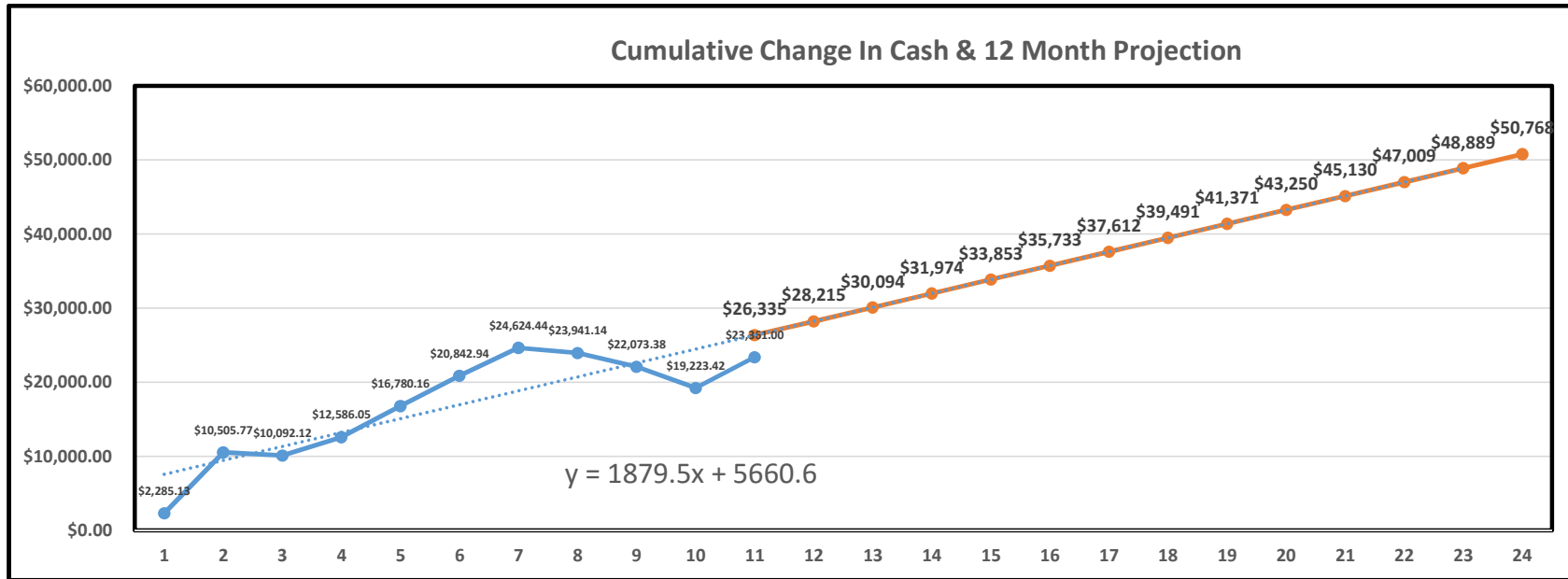
		Annualized
Apr-15	\$11,439	\$152,775.38
May-15	\$9,715	
Jun-15	\$9,251	
Jul-15	\$8,787	
Aug-15	\$8,323	
Sep-15	\$7,858	
Oct-15	\$7,394	
Nov-15	\$6,930	
Dec-15	\$6,466	
Jan-16	\$6,002	
Feb-16	\$5,538	
Mar-16	\$5,074	
Apr-16	\$4,610	

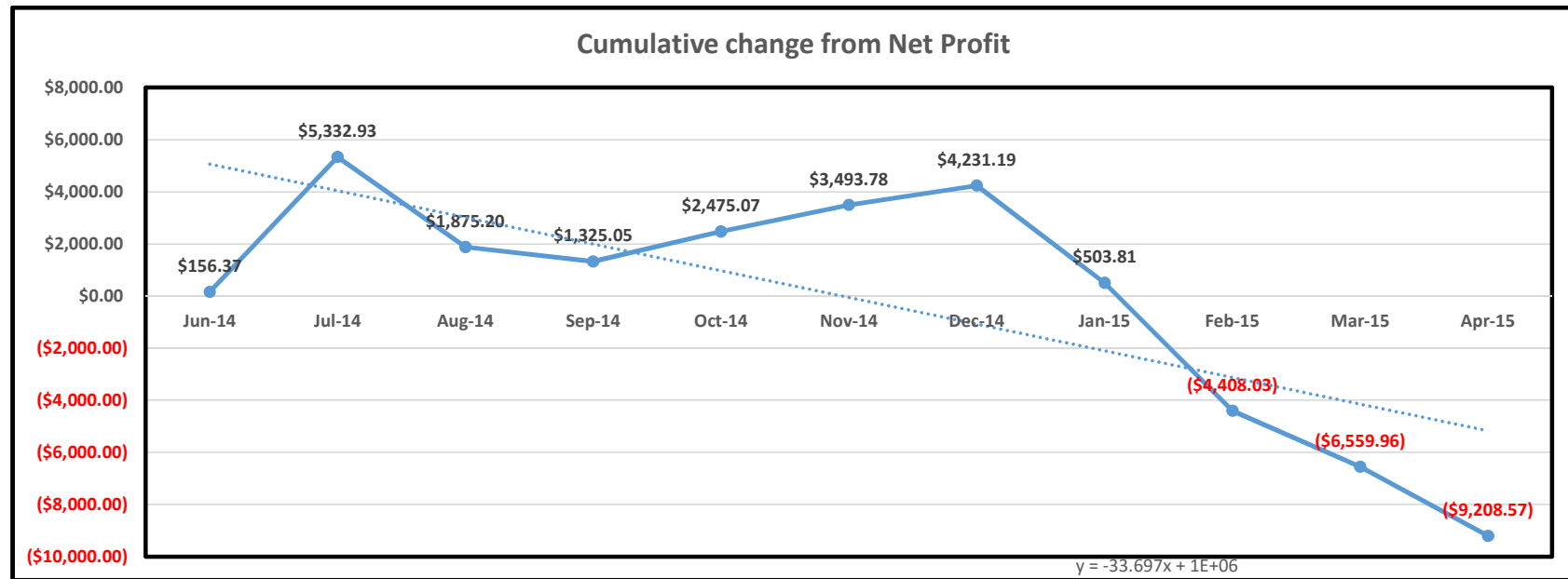
Change In Cash Analysis

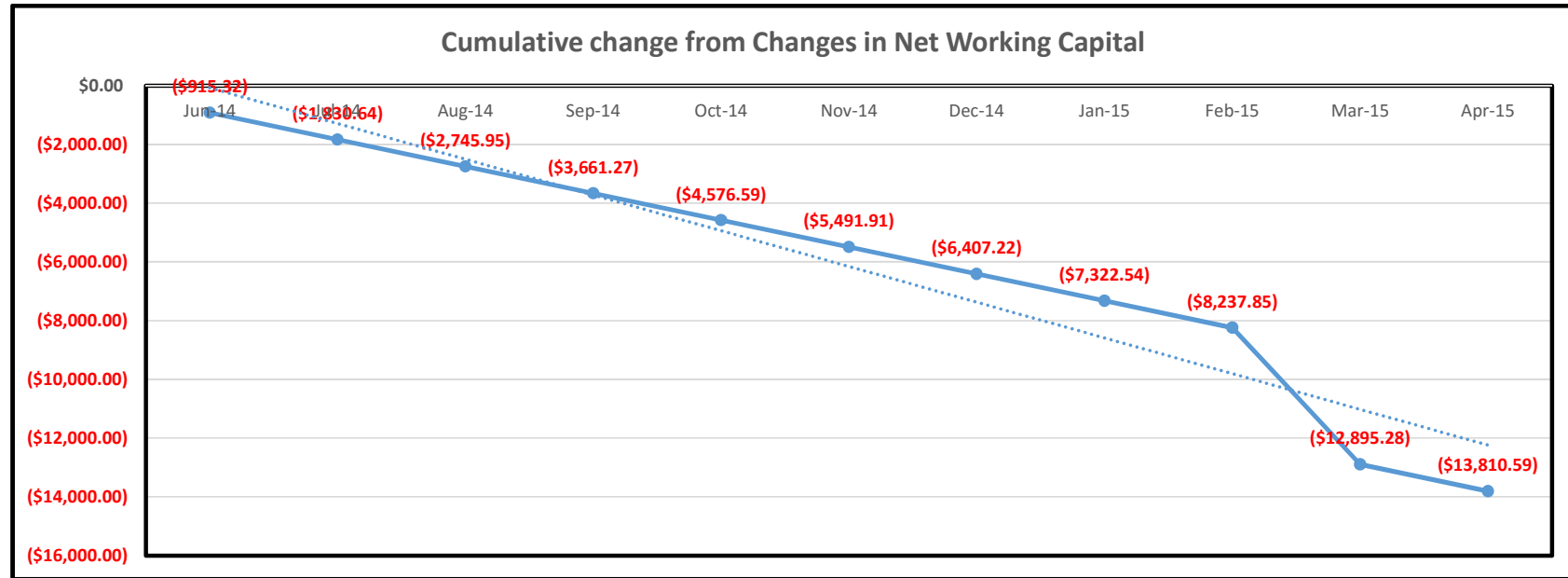
Billy Bob's Barbecue	Mar-15	Apr-15		
ASSETS				
Current Assets				
	Column B	Column C		
Cash	\$23,085.90	\$27,223.47	B minus C	\$4,137.57
Accounts Receivable	\$16,952.01	\$10,804.25	\$6,147.76	
Inventory	\$18,805.94	\$12,256.94	\$6,549.00	
Prepaid Expenses	\$45,646.00	\$31,033.38	\$14,612.62	
Total Current Assets	\$104,489.85	\$81,318.04		
Fixed Assets				
Machinery & Equipment	Jul-87	Jul-87	B minus C	
Office Equipment	\$48,951.03	\$48,951.03		
Accumulated Depreciation	-\$129,772.47	-\$134,334.57		
Net Fixed Assets	\$206,833.42	\$202,271.32	\$4,562.10	
Total Assets	\$311,323.26	\$283,589.36		
LIABILITIES				
Current Liabilities				
			C minus B	
Accounts Payable	\$35,600.00	\$21,885.09	(\$13,714.92)	
Wages Payable	\$9,826.16	\$2,916.63	(\$6,909.53)	
Other Payables	\$4,569.36	\$1,626.55	(\$2,942.81)	
Total Current Liabilities	\$49,995.52	\$26,428.26		
Long Term Liabilities				
Equipment Note to Wells Fargo	\$181,484.18	\$179,966.16	(\$1,518.02)	
Total Long Term Liabilities	\$181,484.18	\$179,966.16		
Total Liabilities	\$231,479.70	\$206,394.42		
OWNERS EQUITY				
			C minus B	
Original Investment	\$75,000.00	\$75,000.00	\$0.00	
Retained Earnings	\$4,843.56	\$2,194.95	(\$2,648.61)	
Total Owners Equity	\$79,843.56	\$77,194.95		
Total Owners Equity & Liabilities	\$311,323.26	\$283,589.36		
			\$4,137.58	

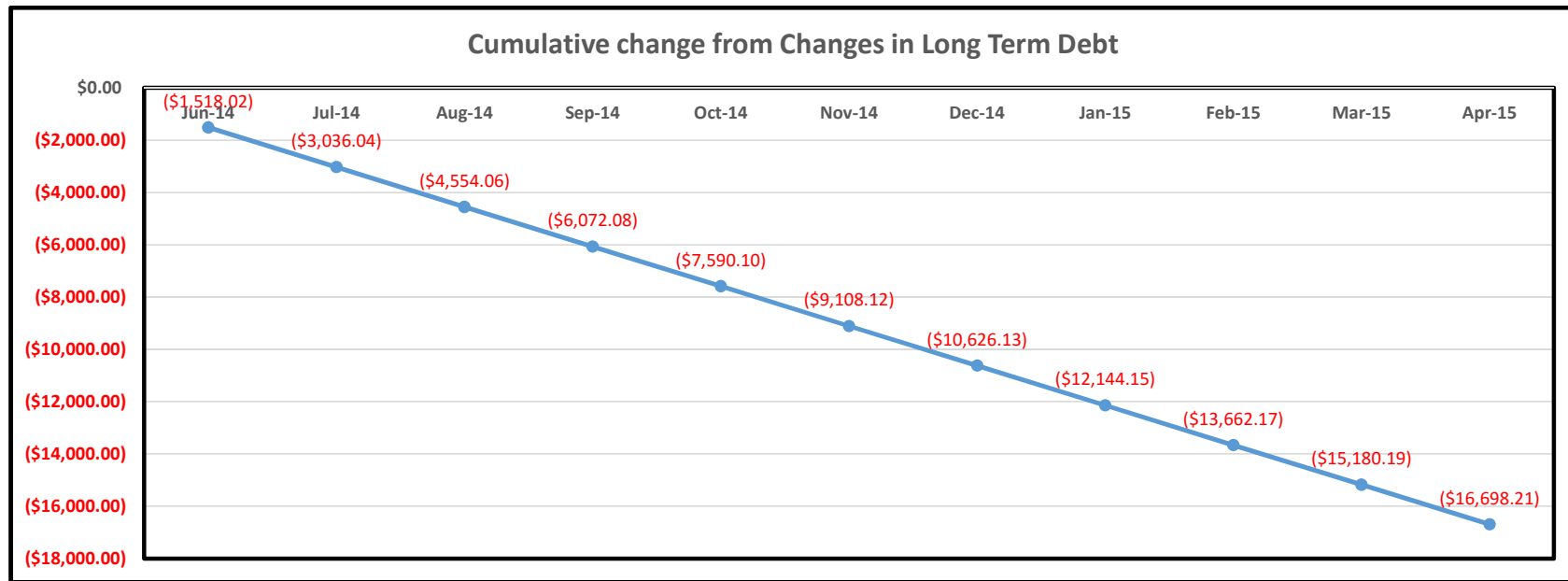


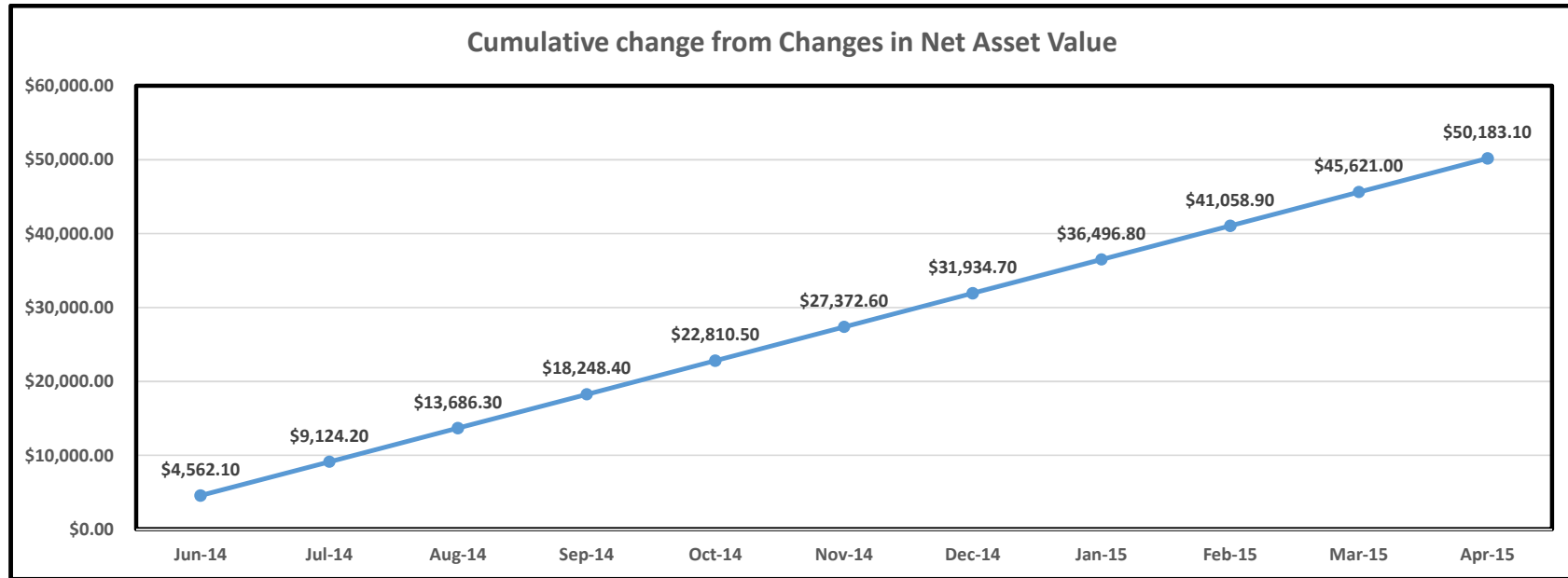


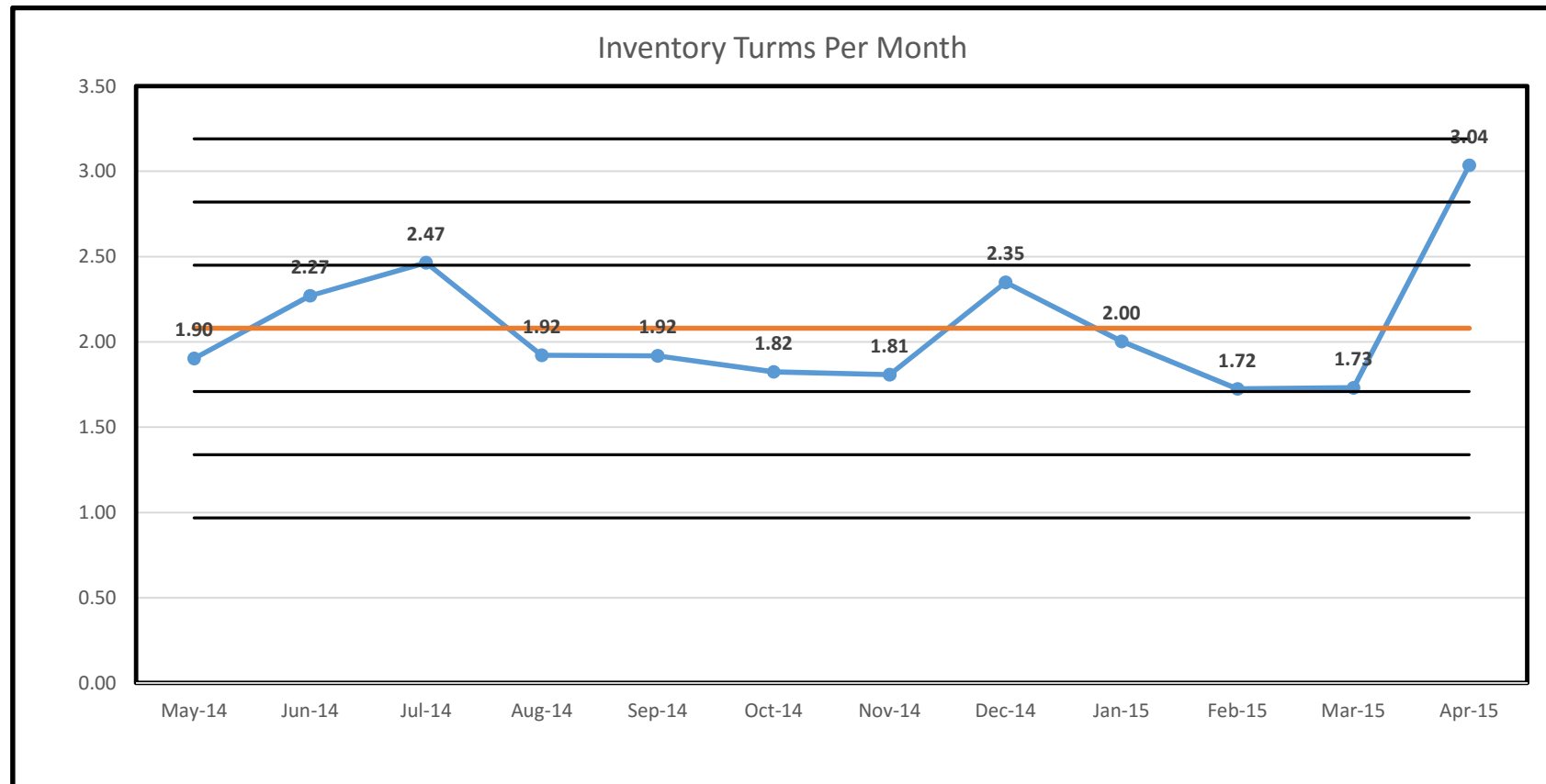


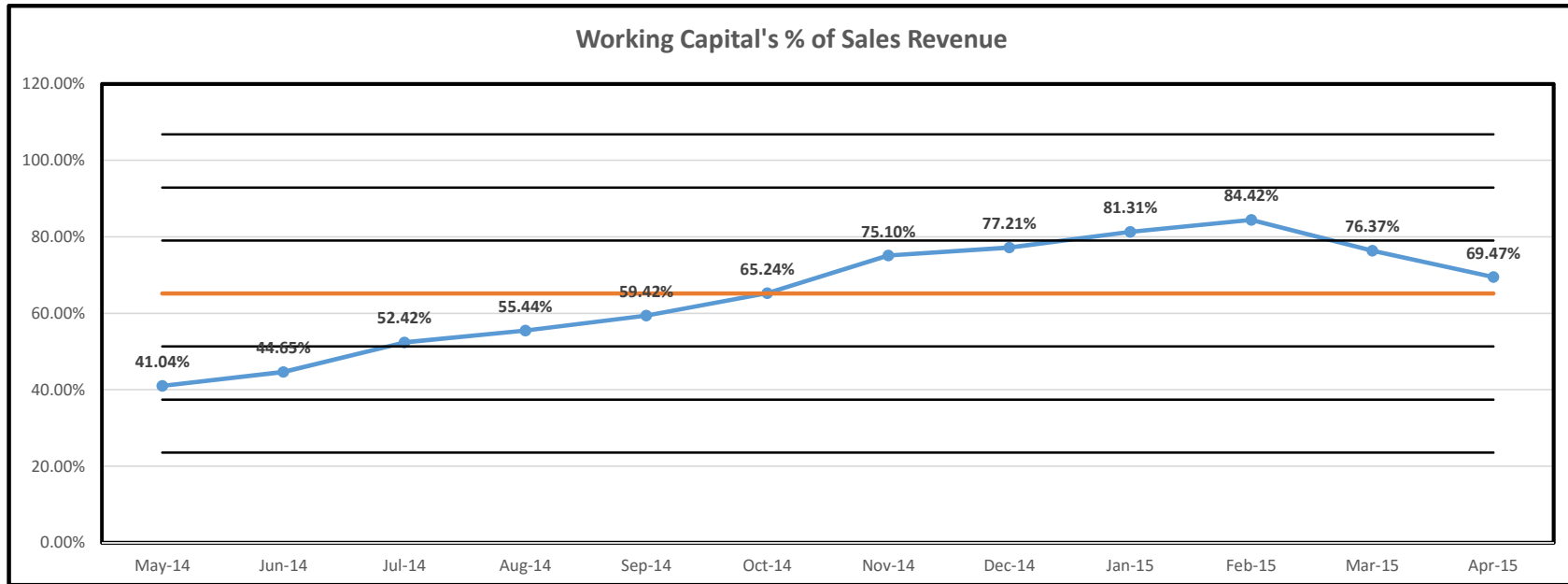




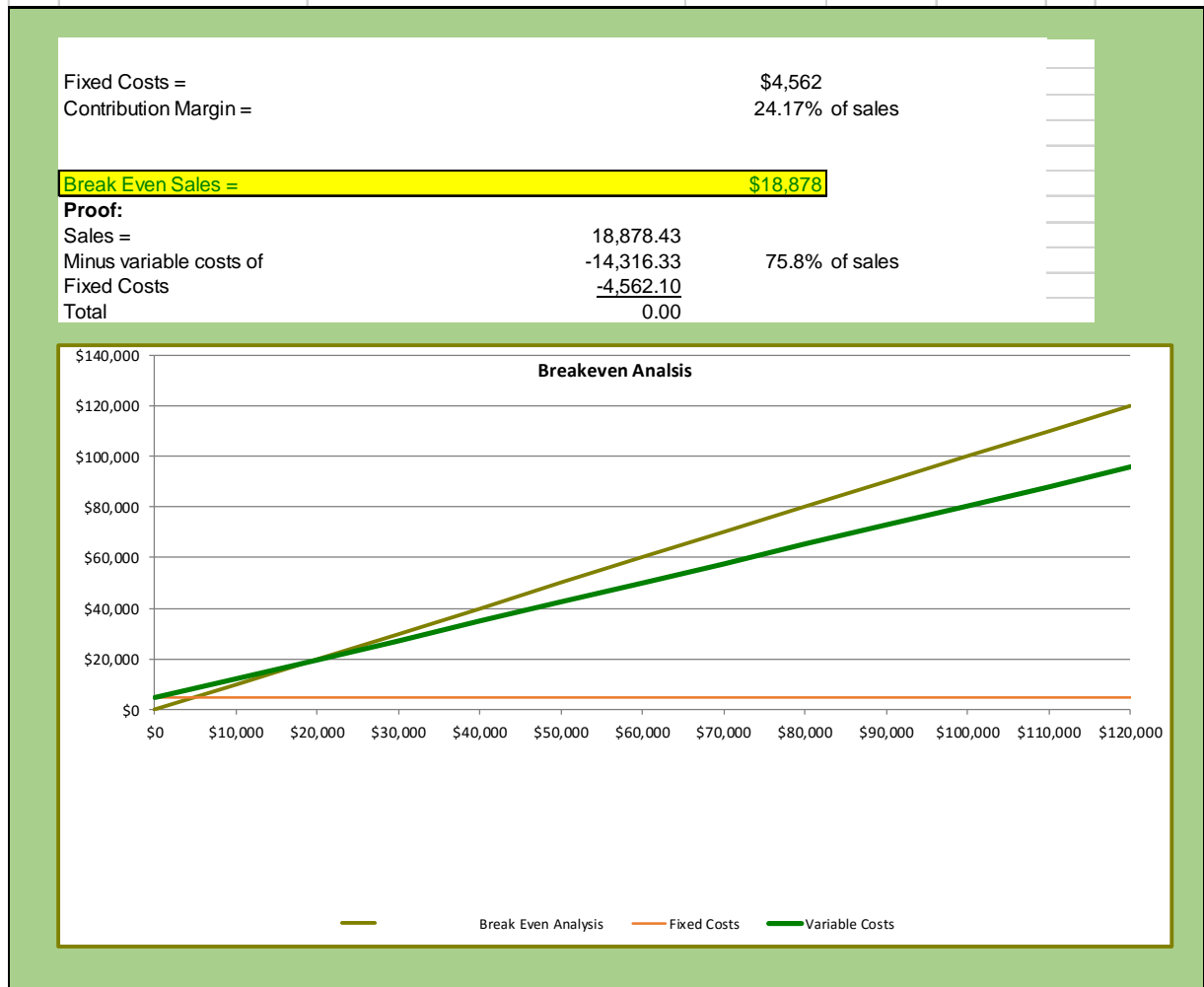








Breakeven Before Discretionary Costs			
Break Even Analysis			
<i>The light blue cells are for user data input. All remaining cells are protected</i>			
Break Even Analysis Based On:			
Billy Bob's Barbecue			
Sales Revenue Increments on Chart	\$10,000	←--use larger sales increments for high sales volume businesses	
Contribution Margin's % of Sales Revenue	24.17%		
Fixed costs Before Discretionary Costs	\$4,562		



Breakeven Before Discretionary Costs			
Fixed Costs	Contribution Margin % of Sales per	Enter Actual Sales	Profit BDC
\$4,562.10	24.17%	\$79,017.10	\$14,532.91
	Current Sales Above Break Even =	\$60,138.67	76.1% 18.4%
Projections			
Fixed Costs Adjustment for sales increases		0.0%	of sales
Fixed Costs Per	Contribution Margin % of Sales per	Sales Revenue per	Profit BDC
Month	Month	Month	Month
1	\$7,656 24.17%	\$79,406.18	\$11,533.04
2	\$7,656 24.17%	\$79,406.18	\$11,533.04
3	\$7,656 24.17%	\$79,017.00	\$11,438.99
4	\$7,656 24.17%	\$84,017.00	\$12,647.27
5	\$7,656 24.17%	\$89,017.00	\$13,855.56

Breakeven After Discretionary Costs			
Break Even Analysis			
<i>The light blue cells are for user data input. All remaining cells are protected</i>			
Break Even Analysis Based On:			
Billy Bob's Barbecue			
Sales Revenue Increments on Chart	\$10,000	←--use larger sales increments for high sales volume businesses	
Contribution Margin's % of Sales Revenue	24.17%		
Total Fixed costs	\$21,744		



Breakeven After Discretionary Costs				
Fixed Costs	Contribution Margin % of Sales per	Enter Actual Sales		Net Profit
\$21,743.63	24.17%	\$79,017.10		-\$2,648.61
Current Sales Above Break Even =		-\$10,960.23	-13.9%	-3.4%
Projections				
Fixed Costs Adjustment for sales increases			0.0%	of sales
Fixed Costs Per	Contribution Margin % of Sales per	Sales Revenue per		Net Profit
Month	Month	Month		Month
1	\$7,656	24.17%	\$79,406.18	\$11,533.04
2	\$7,656	24.17%	\$79,406.18	\$11,533.04
3	\$7,656	24.17%	\$79,017.00	\$11,438.99
4	\$7,656	24.17%	\$84,017.00	\$12,647.27
5	\$7,656	24.17%	\$89,017.00	\$13,855.56

Industry Average Benchmarks			
	Rolling 12		Industry
Key Operating Costs	Mo. Avg		Averages
Cost of Goods Sold	43.66%		41.07%
Direct Labor	22.46%		18.20%
Advertising	4.07%		3.12%
Rent	7.51%		6.97%
Interest Expense	0.55%		1.00%
Owner's Discretionary Cash Flow	17.39%		8.95%
Key Balance Sheet Ratios			
Total Inventory Turn in days	11.66		15.99
Working Capital's % of Sales Revenue	64.60%		0.03%
Annual Sales Revenue ÷ FMV Fixed Assets	3.26		2.99
Annual Sales Revenue ÷ FMV Total Assets	2.60		2.25
Current Ratio	3.19		1.33
Quick Ratio	2.62		1.18

Altman Z Score	
Is the subject company a manufacturer? Y or N	N
Billy Bob's Barbecue	3.18
Green Zone: Financially sound if greater than	2.60
Yellow Zone: Time to take serious action	1.10 to 2.60
Red Zone: Likelihood of bankruptcy if less than	1.10

Most Probable Selling Price	
Billy Bob's Barbecue	12 Month Totals
Owner's Discretionary Cash Flow	\$212,317.35
Valuation Rule of Thumb Multiple Full Service Restaurants	
Low	1
Average	2
High	3
Most Probable Selling Price	
Low	\$212,317.35
Average	\$424,634.70
High	\$636,952.06
Current Assets Not Included In Selling Price	
	\$69,061.10
Enterprise Value	
Low	\$281,378.45
Average	\$493,695.81
High	\$706,013.16
Total Liabilities	
	\$206,394.42
Seller's Net Proceeds From Sale	
Low	\$74,984.04
Average	\$287,301.39
High	\$499,618.74