# **Monthly Performance Report**

Demo Company Ltd Jun 2020

Published on 17 Jul 2020





# **Executive Summary**

### Overview

Revenue and profitability are both down this month as expected, however targets were met for both of these KPIs and year on year growth is maintained, so there is nothing to be concerned about - this drop was expected and on trend for the time of year.

Cashflow and available cash has vastly improved this month, mostly due to the credit control measures that we implemented, and a number of older debts being paid. Continue with tight credit control and encouraging customers to switch to direct debit to see further improvements.

There was a 29.5% increase in expenses for this month, mostly due to one off expenses, however these expenses need to be monitored and tightly controlled to ensure profitability increases next month.

## **Actions**

- Continue with new credit control measures and converting customers to direct debit
- Review rolling 12 month plan and forecast
- Review sales pipeline



Revenue £551,165 (Last month £577,664)

Negative trend downwards.



Profitability Ratio 17.52% (Last month 26.04%)

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



Activity Ratio 2.87 times (Last month 3.06 times)

Negative trend downwards. 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.



Return on Capital Employed 50.22% (Last month 79.67%)

Negative trend downwards. A lower ROCE% may indicate a less efficient use of capital employed.



Cash Conversion Cycle O days (Last month 19 days)

Positive trend downwards. Strategies to improve cash conversion include: collecting debt faster, reducing inventory levels, billing work in progress faster and paying creditors slower



#### Free Cash Flow £485,693

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.



#### Net Variable Cash Flow 70.99%

Net variable cash flow is positive. The business will generate cash from each additional £1 of products or services that the business sells.



Net Debt -£1,195,596 (Last month -£746,155)

Net debt levels have fallen.

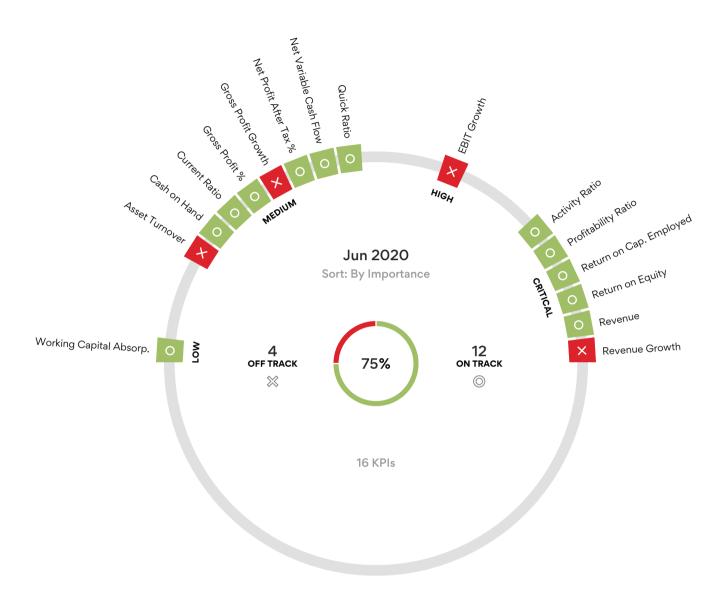
# **KPI Results**

This chart shows KPIs grouped into performance perspectives.



# **KPI Results**

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



# **KPI Results**

	RESULT	TARGET		TREND	IMPORTANCE
A PROFITABILITY	JUN 2020			vs MAY 2020	
Total Revenue	£551,165	£551,165	~	<b>▼</b> -4.6%	Critical
Gross Profit Margin	49.69%	49.69%	~	▼ -0.37%	Medium
Profitability Ratio	17.52%	17.52%	~	▼ -8.51%	Critical
Net Profit After Tax Margin	10.53%	10.53%	~	▼ -4.93%	Medium
B ACTIVITY					
Activity Ratio	2.87 times	2.00 times	~	▼ -0.19 times	Critical
C EFFICIENCY					
Return on Equity	43.13%	15%	~	▼ -24.82%	Critical
Return on Capital Employed	50.22%	12.5%	~	▼ -29.45%	Critical
D ASSET USAGE					
Asset Turnover	2.05 times	5.00 times	×	▼ -0.40 times	Medium
Working Capital Absorption *	1.07%	07% 25% ✓ ▼ -2.67%		▼ -2.67%	Low
E LIQUIDITY					
Current Ratio	2.63:1	2.00:1 🗸 -0.80:1		▼ -0.80:1	Medium
Quick Ratio	2.00:1	1.00:1	~	▼ -0.39:1	Medium
CASH FLOW					
Cash on Hand	£1,907,964	£10,000	~	<b>4</b> 0.2%	Medium
Net Variable Cash Flow	70.99%	0%	~	<b>▲</b> 2.17%	Medium
G GROWTH					
Revenue Growth	-4.59%	0.41%	×	▼ -6%	Critical
Gross Profit Growth	-5.29%	0.17%	×	▼ -6.99%	Medium
EBIT Growth	-35.79%	0.17%	×	▼ -59.12%	High

<sup>\*</sup> For this metric, a result below target is favourable

# Revenue Analysis

**TOTAL REVENUE** 

**TARGET** 

LAST MONTH (May 20)

£551,165

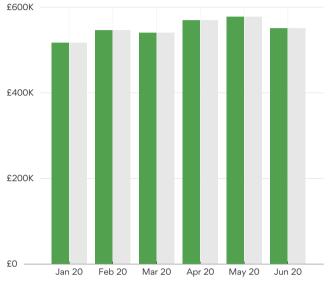
£551,165

£577,664



Revenue Mix - Top 10 Accounts

Sales £551,165



YTD ACTUAL (2020 YTD)

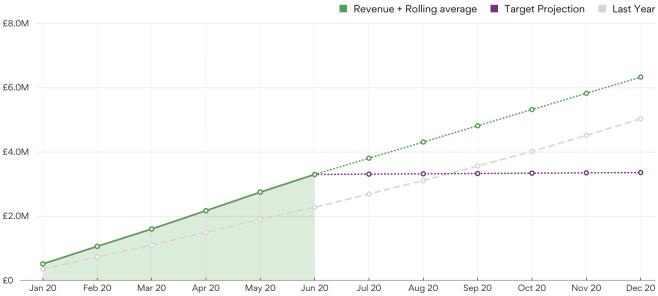
YTD BUDGET (2020 YTD)

YTD LAST YEAR (2019 YTD)

£3,301,924

£3,301,924 Budget £2,275,334





# **Profitability**

**REVENUE** 

**EXPENSES TO REVENUE RATIO** 

**MARGIN OF SAFETY** 

£551,165

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

89.4%

A measure of how efficiently the business is conducting its operations. £81,109

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.

Top 10 Revenue Accounts

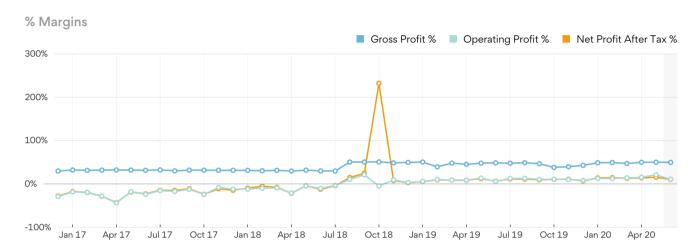
Sales £55	51,165
-----------	--------

**Top 10 Expense Accounts** 

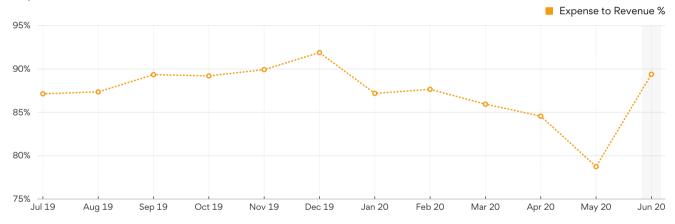
Salaries & Wages	£92,054
Entertainment	£20,636
Loan Interest	£16,146
Advertising & Promotions	£11,357
Contractors	£9,324
Repairs & Maintenance	£8,927
Travel & Accommodation	£8,745
Consulting Fees	£8,743
Marketing	£7,681
Training & Education	£7,196

# **Profitability Charts**

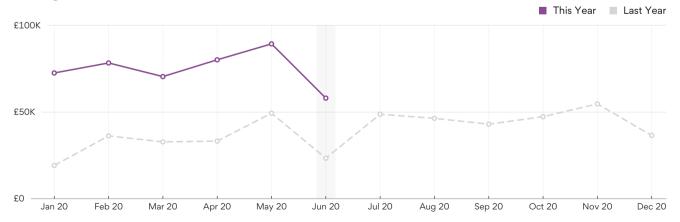
	Jun 2020	% of Revenue	Mar 2020	Apr 2020	May 2020
Gross Profit	£273,865	49.7%	£255,068	£284,350	£289,171
Operating Profit	£58,448	10.6%	£75,938	£87,931	£122,824
Earnings Before Interest & Tax	£96,579	17.5%	£106,376	£121,948	£150,406
Earnings After Tax	£58,053	10.5%	£70,480	£80,154	£89,348



#### Expense-to-Revenue (%)



### Earnings After Tax This Year vs Last Year



## Cash Flow

**OPERATING CASH FLOW** 

**FREE CASH FLOW** 

**NET CASH FLOW** 

# £469,935

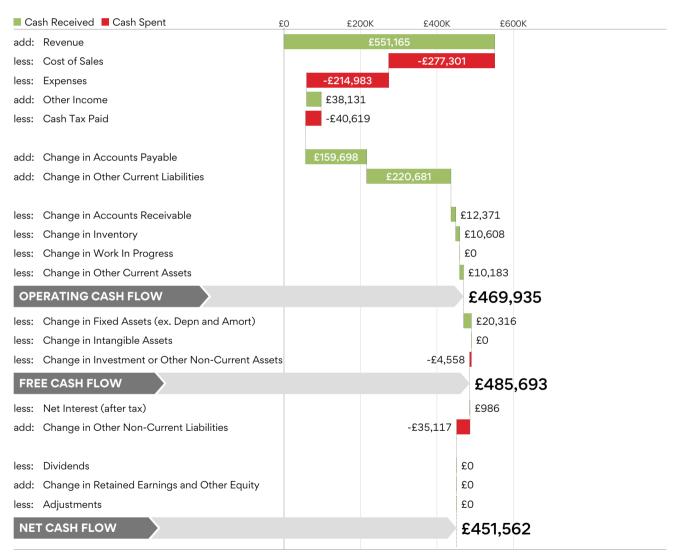
Operating cash flow is simply the cash generated by the operating activities of the business. Operating activities include the production, sales and delivery of the company's product and/or services as well as collecting payment from its customers and making payments to suppliers.

# £485,693

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.

# £451,562

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 £546,840

(Open: £1,361,124, Close: £1,907,964)

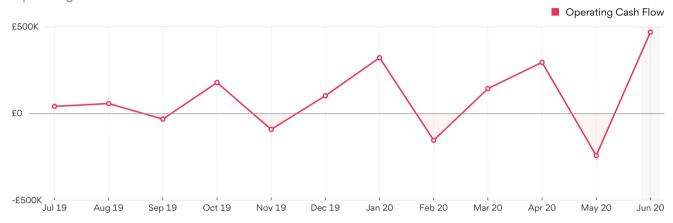
- Change in Debt £97,399

(Open: £614,969, Close: £712,368)

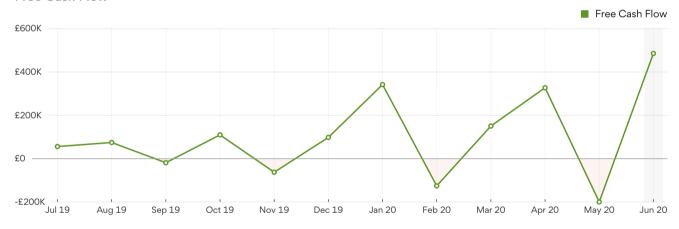
# **Cash Flow Charts**

	Jun 2020	Mar 2020	Apr 2020	May 2020
Operating Cash Flow	£469,935	£144,101	£295,716	-£242,496
Free Cash Flow	£485,693	£150,629	£327,393	-£199,652
Net Cash Flow	£451,562	£114,200	£291,767	-£237,839
Cash on Hand	£1,907,964	£1,196,086	£1,599,532	£1,361,124

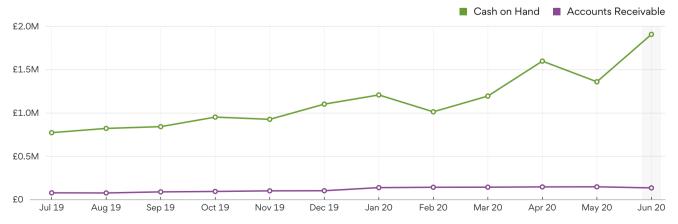
### **Operating Cash Flow**



### Free Cash Flow



#### Cash & Receivables



# Growth

**REVENUE GROWTH** 

**EBIT GROWTH** 

**ASSET CHANGE** 

-4.59%

-35.79%

17.95%

A measure of the percentage change in Revenue for the period.

A measure of the percentage change in EBIT for the period.

A measure of the percentage change in Total Assets for the period.

Change in Key Drivers (from prior month)

Revenue Down 4.6% Cost of Sales Down 3.9%

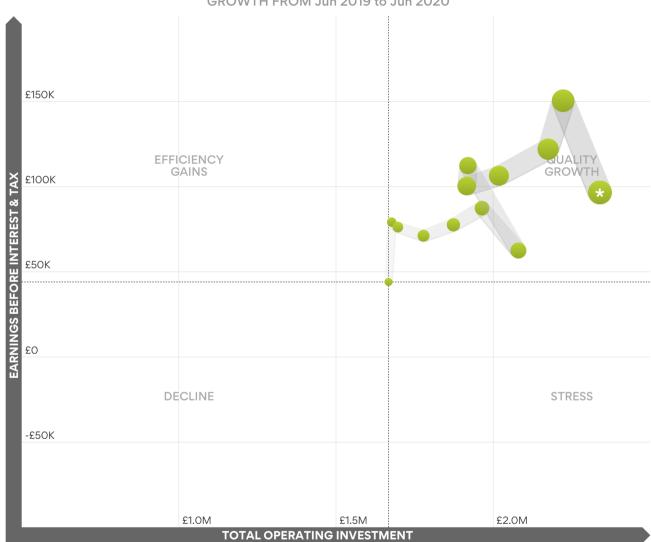
Expenses Up 29.5%

Receivable Days Down 12.5 days

Inventory Days Down 2.8 days

Payable Days Up 68 days

GROWTH FROM Jun 2019 to Jun 2020



\* Total Operating Investment £2,339,796; Earnings Before Interest & Tax £96,579



Size of the circle shows the recency of the result



Vertical position of the circle shows the growth in Earnings Before Interest & Tax



Horizontal position of the circle shows the growth in Total Operating Investment

# **Financials**

PROFIT & LOSS	Jun 2020	May 2020	Variance %
Revenue	£551,165	£577,664	-4.59%
Cost of Sales	£277,301	£288,493	-3.88%
Gross Profit	£273,865	£289,171	-5.29%
Expenses	£215,417	£166,347	29.50%
Operating Profit	£58,448	£122,824	-52.41%
Other Income	£38,131	£27,582	38.25%
Other Expenses	£O	£O	-
Earnings Before Interest & Tax	£96,579	£150,406	-35.79%
Interest Income	£1,233	£910	35.45%
Interest Expenses	£O	£O	-
Earnings Before Tax	£97,812	£151,316	-35.36%
Tax Expenses	£39,758	£61,968	-35.84%
Earnings After Tax	£58,053	£89,348	-35.03%
Dividends	£O	£O	-
Net Income	£58,053	£89,348	-35.03%
BALANCE SHEET	Jun 2020	May 2020	Variance %
ASSETS			
Cash & Equivalents	£1,907,964	£1,361,124	40.18%
Accounts Receivable	£136,928	£149,300	-8.29%
Inventory	£325,340	£335,948	-3.16%
Work in Progress	£O	£O	-
Other Current Assets	£312,327	£322,510	-3.16%
Total Current Assets	£2,682,559	£2,168,881	23.68%
Fixed Assets	£565,778	£586,529	-3.54%
Intangible Assets	£3,867	£3,867	0.00%
Investments or Other Non-Current Assets	£17,529	£12,970	35.14%
Total Non-Current Assets	£587,174	£603,366	-2.68%
Total Assets	£3,269,733	£2,772,248	17.95%
LIABILITIES			
Short Term Debt	£91,129	£82,619	10.30%
Accounts Payable	£390,276	£230,578	69.26%
Tax Liability	£O	£O	-
Other Current Liabilities	£539,661	£318,980	69.18%
Total Current Liabilities	£1,021,066	£632,177	61.52%
Long Term Debt	£621,238	£532,350	16.70%
Deferred Taxes	£51,187	£52,295	-2.12%
Other Non-Current Liabilities	-£184,454	-£149,336	-23.52%
Total Non-Current Liabilities	£487,972	£435,308	12.10%
Total Liabilities	£1,509,038	£1,067,484	41.36%
EQUITY			
Retained Earnings	£1,007,769	£1,007,769	0.00%
Current Earnings	£502,420	£444,367	13.06%
Other Equity	£185,438	£185,438	0.00%
Total Equity	£1,695,627	£1,637,574	3.55%
Total Liabilities & Equity	£3,204,665	£2,705,058	18.47%

# **KPIs Explained**

#### Activity Ratio 2.87 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

#### X Asset Turnover 2.05 times

A measure of how effectively the business has used its assets to generate revenue. The business makes £205.09 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 £1,907,964

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 £1,907,964 of cash and cash equivalents. Cash on Hand is above the required target of £10,000.

Cash on Hand = Cash & Equivalents



#### Current Ratio 2.63:1

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 2.63:1, down from 3.43:1 last period and above the minimum target of 2.00:1.

Current Ratio = Total Current Assets / Total Current Liabilities

#### X EBIT Growth -35.79%

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 -35.79% was less than the target of 0.17%.

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

#### Gross Profit Growth -5.29%

A measure of the percentage change in gross profit for the period. For this period, gross profit growth of -5.29% was less than the target of 0.17%.

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



#### Gross Profit Margin 49.69%

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 £49.69 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 49.69%.

Gross Profit Margin = Gross Profit / Revenue \* 100

### Net Profit After Tax Margin 10.53%

A measure of the proportion of revenue that is left after all expenses have been paid. The business makes £10.53 of net profit for every £100 it generates in revenue. For this period, the Net Profit After Tax margin is below the required target. This may indicate cost blowouts that require efficiency improvements.

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

### ✓ Net Variable Cash Flow 70.99%

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 70.99% of gross revenue. Each additional £100 of Revenue will generate £70.99 of cash.

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

### Profitability Ratio 17.52%

A measure of the proportion of revenue that is left after deducting all expenses. This excludes finance costs and tax expenses. The business makes £17.52 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 below the required target of 17.52%.

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

### ✓ Quick Ratio 2.00:1

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 2.00:1, down from 2.39:1 last period and above the minimum target of 1.00:1.

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

## Return on Capital Employed 50.22%

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 50.22%. This return exceeds the target of 12.5%.

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

## Return on Equity 43.13%

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 43.13%. This return exceeds the target of 15%.

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

### X Revenue Growth -4.59%

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 -4.59% was below the target growth of 0.41%.

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

### ✓ Total Revenue £551,165

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 £551,165. 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 £551,165.

Total Revenue = Revenue

### ✓ Working Capital Absorption 1.07%

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