Performance Review

For the period ended 31/12/2013

Provided By

GreenPage & Co. Accountants

John Hartstone
+44 203 514 3609

Analytical Procedure Worksheet

Report prepared for: Jason's Restaurant

Profit and Loss Statement Data	31/12/2011	31/12/2012	Actual 31/12/2013	Expected 31/12/2013	% Diff	Comments
Turnover	£2,356,255	£2,654,562	£2,983,777	£2,952,869	1%	
Cost of Sales (COGS)	£1,252,983	£1,298,397	£1,602,938	£1,482,086	8%	
Depreciation (COGS-related)	£0	£0	£0	£0	0%	
Direct Materials	£0	£0	£0	£0	0%	
Direct Labour	£0	£0	£0	£0	0%	
Gross Profit	£1,103,272	£1,356,165	£1,380,839	£1,470,783	-6%	
Gross Profit Margin	46.82%	51.09%	46.28%	49.81%	-7%	
Depreciation	£10,211	£11,900	£12,500	£13,240	-6%	
Amortisation	£0	£0	£0	£0	0%	
Overhead and Administrative Expenses	£28,948	£81,892	£75,948	£1,213,322	-94%	
G & A, Wages and Salaries	£823,680	£885,355	£898,779	£947,030	-5%	
Wages and Salaries	£0	£0	£0	£0	0%	
Hire	£93,254	£112,355	£119,100	£131,456	-9%	
Rent	£0	£0	£0	£0	0%	
Advertising	£28,948	£81,892	£75,948	£134,836	-44%	
Other Operating Income	£0	£0	£0	£0	0%	
Other Operating Expenses	£81,225	£131,912	£114,231	£182,599	-37%	
Operating Profit	£1,064,113	£1,262,373	£1,292,391	£61,622	1,997%	
Interest Payments	£21,445	£31,238	£35,989	£27,908	29%	
Other Income	£0	£0	£0	£0	0%	
Other Expenses	£998,159	£1,129,622	£1,132,110	£1,261,085	-10%	
Pre-Tax Profit	£44,509	£101,513	£124,292	-£1,227,371	110%	
Adjusted Pre-Tax Profit	£44,509	£101,513	£124,292	-£1,227,371	110%	
Net Profit Margin	1.89%	3.82%	4.17%	-41.57%	110%	
EBITDA	£76,165	£144,651	£172,781	-£1,186,223	115%	
Taxation	£12,463	£28,424	£35,642	£0	N/A	
Extraordinary Gain	£0	£0	£0	£0	0%	
Extraordinary Loss	£0	£0	£0	£0	0%	
Net Income	£32,046	£73,089	£88,650	-£1,227,371	107%	

Balance Sheet Data	31/12/2011	31/12/2012	Actual 31/12/2013	Expected 31/12/2013	% Diff	Comments
Gross Tangible Assets	£625,765	£782,655	£997,012	£939,545	6%	
Accumulated Depreciation	£72,688	£71,577	£98,789	£84,817	16%	
Net Tangible Assets	£625,765	£782,655	£997,012	£854,728	17%	
Gross Intangible Assets	£0	£0	£0	£0	0%	
Accumulated Amortisation	£0	£0	£0	£0	0%	
Net Intangible Assets	£0	£0	£0	£0	0%	
Stock	£125,367	£136,357	£140,287	£163,006	-14%	
Trade Debtors	£178,265	£180,256	£182,900	£177,622	3%	
Cash (Bank Funds)	£72,678	£87,678	£78,236	-£673,655	112%	
Miscellaneous Current Assets	£43,566	£58,768	£24,987	£73,970	-66%	
Total Current Assets	£419,876	£463,059	£426,410	-£259,057	265%	
Miscellaneous Assets	-£10	£16,091	-£54,802	£32,192	-270%	
Total Assets	£1,045,631	£1,261,805	£1,368,620	£627,863	118%	
Trade Creditors	£77,627	£72,678	£80,283	£74,099	8%	
Short Term Bank Loans & Overdrafts	£0	£0	£0	£0	0%	
Current Portion of Long Term Bank Loans & Overdrafts	£0	£0	£0	£0	0%	
Miscellaneous Current Liabilities	£256,888	£675,905	£487,987	£1,094,922	-55%	
Total Current Liabilities	£334,515	£748,583	£568,270	£1,169,021	-51%	

Notes Payable / Senior Debt	£0	£0	£0	£0	0%
Notes Payable / Subordinated Debt	£0	£0	£0	£0	0%
Other Long Term Finance	£65,245	£76,548	£253,340	£249,539	2%
Total Long Term Liabilities	£65,245	£76,548	£253,340	£249,539	2%
Total Liabilities	£399,760	£825,131	£821,610	£1,418,560	-42%
Preference Shares	£0	£0	£0	£0	0%
Ordinary Shares	£0	£0	£0	£0	0%
Called Up Share Capital	£330,371	£48,085	£21,686	£48,085	-55%
Other Stock / Equity	£645,871	£436,674	£547,010	£0	N/A
Ending Retained Earnings	£315,500	£388,589	£525,324	-£838,782	163%
Total Equity	£645,871	£436,674	£547,010	-£790,697	169%
Z-Score	3.64	0.78	2.06	-32.70	106%

Common Size Statements

Profit and Loss Statement Data	31/12/2011	31/12/2012	31/12/2013
Turnover	100%	100%	100%
Cost of Sales (COGS)	53%	49%	54%
Depreciation (COGS-related)	0%	0%	0%
Direct Materials	0%	0%	0%
Direct Labour	0%	0%	0%
Gross Profit	47%	51%	46%
Depreciation	0%	0%	0%
Amortisation	0%	0%	0%
Overhead and Administrative Expenses	1%	3%	3%
G & A, Wages and Salaries	35%	33%	30%
Wages and Salaries	0%	0%	0%
Hire	4%	4%	4%
Rent	0%	0%	0%
Advertising	1%	3%	3%
Other Operating Income	0%	0%	0%
Other Operating Expenses	3%	5%	4%
Operating Profit	45%	48%	43%
Interest Payments	1%	1%	1%
Other Income	0%	0%	0%
Other Expenses	42%	43%	38%
Pre-Tax Profit	2%	4%	4%
Adjusted Pre-Tax Profit	2%	4%	4%
EBITDA	3%	5%	6%
Taxation	1%	1%	1%
Extraordinary Gain	0%	0%	0%
Extraordinary Loss	0%	0%	0%
Net Income	1%	3%	3%

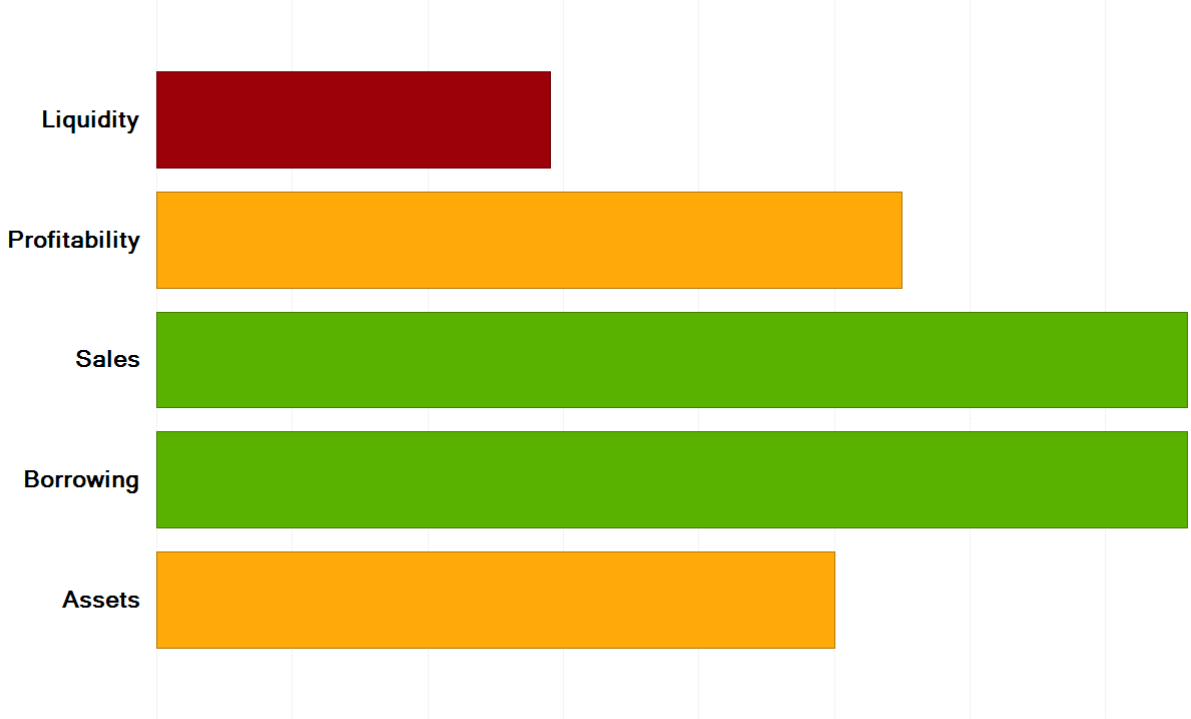
Balance Sheet Data	31/12/2011	31/12/2012	31/12/2013
Gross Tangible Assets	60%	62%	73%
Accumulated Depreciation	7%	6%	7%
Net Tangible Assets	60%	62%	73%
Gross Intangible Assets	0%	0%	0%
Accumulated Amortisation	0%	0%	0%
Net Intangible Assets	0%	0%	0%
Stock	12%	11%	10%
Trade Debtors	17%	14%	13%
Cash (Bank Funds)	7%	7%	6%
Miscellaneous Current Assets	4%	5%	2%
Total Current Assets	40%	37%	31%
Miscellaneous Assets	0%	1%	-4%
Total Assets	100%	100%	100%
Trade Creditors	7%	6%	6%
Short Term Bank Loans & Overdrafts	0%	0%	0%
Current Portion of Long Term Bank Loans & Overdrafts	0%	0%	0%
Miscellaneous Current Liabilities	25%	54%	36%
Total Current Liabilities	32%	59%	42%
Notes Payable / Senior Debt	0%	0%	0%
Notes Payable / Subordinated Debt	0%	0%	0%
Other Long Term Finance	6%	6%	19%
Total Long Term Liabilities	6%	6%	19%
Total Liabilities	38%	65%	60%
Preference Shares	0%	0%	0%
Ordinary Shares	0%	0%	0%
Called Up Share Capital	32%	4%	2%
Other Stock / Equity	62%	35%	40%
Ending Retained Earnings	30%	31%	38%
Total Equity	62%	35%	40%

Financial Score

Jason's Restaurant Report

Industry: 56.10 - Restaurants and mobile food service activities
Revenue: £1M - £10M
Periods: 12 months against the same 12 months from the previous year

Summary Explanatory Content



Liquidity

A measure of the company's ability to meet obligations as they come due.

Operating Cash Flow Results
Despite being profitable, the company has generated negative cash flow from operations this period, and cash flow has declined relative to turnover. This is troublesome, particularly since overall liquidity conditions seem weak. Now is likely a good time to examine the Statement of Cash Flows to see exactly how cash is entering and leaving the company.

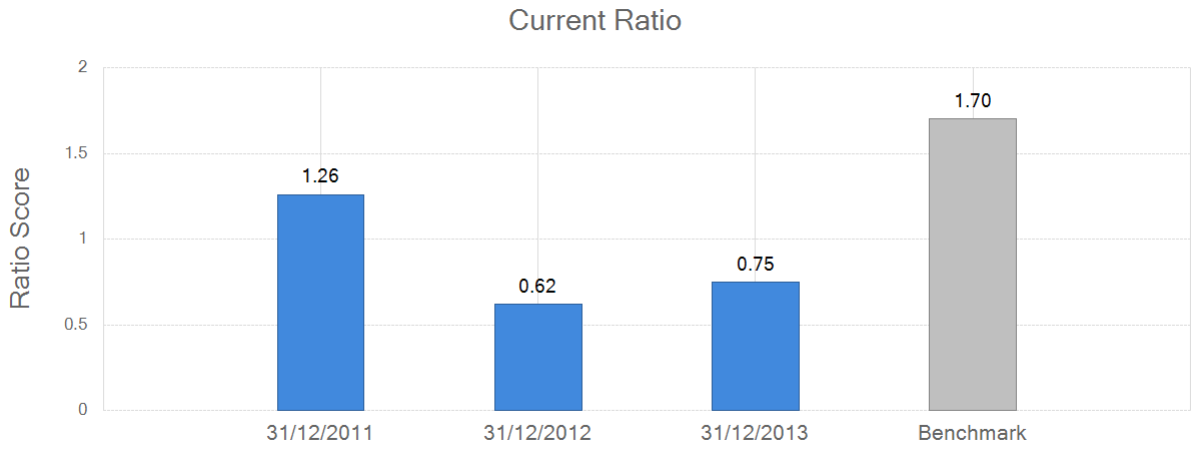
General Liquidity Conditions
Both turnover and profits have risen this period, which may have helped to improve the company's liquidity position. This is important because the liquidity position is still poor, although it is better than it was last period. It would be positive to keep boosting profitability to put the firm in a more solid position in this area. At this time, the company might POSSIBLY have some difficulties paying the bills in its present condition.

Unfortunately, both the overall liquidity position as well as the cash and near-cash accounts look weak as of the period's end. This means that the weakness here is fairly extensive, which may leave the company vulnerable in this key area.

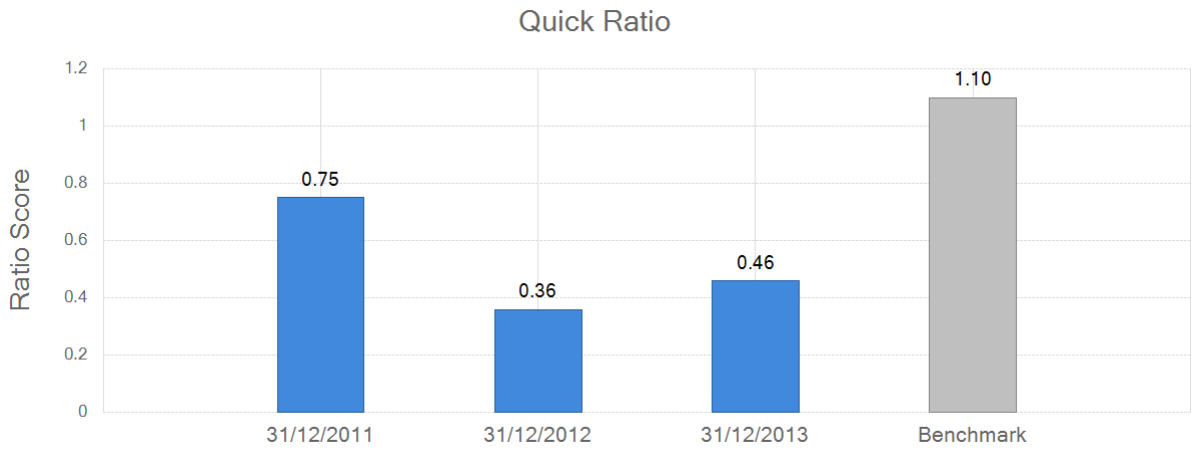
Stock days and trade debtor days are high in comparison to conditions in other similar companies. A high stock days ratio typically indicates that the company could be taking a relatively long time to sell stock. The high trade debtor days number shows the company is taking a longer length of time collecting money from customers. Higher trade debtor and

stock days ratios would tend to depress the cash account.

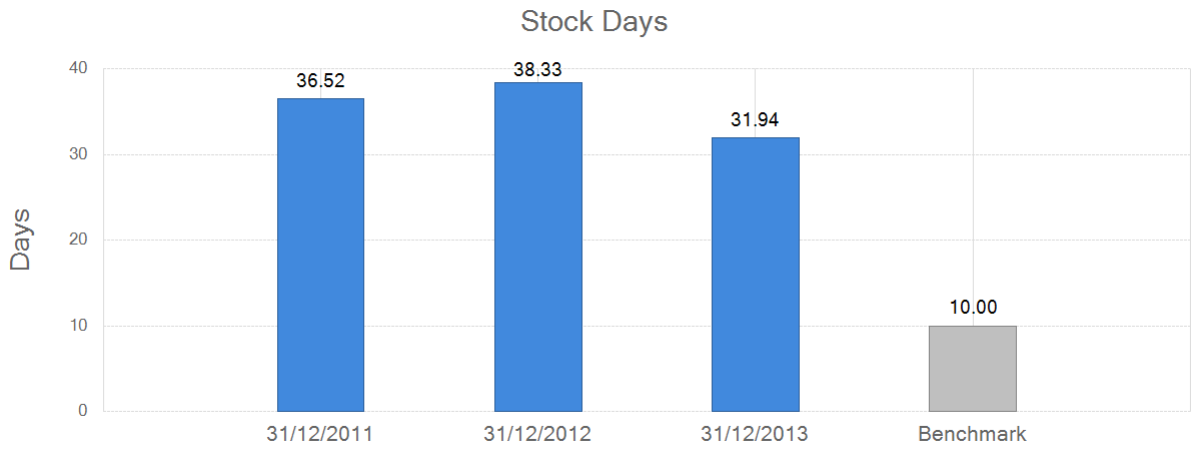
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



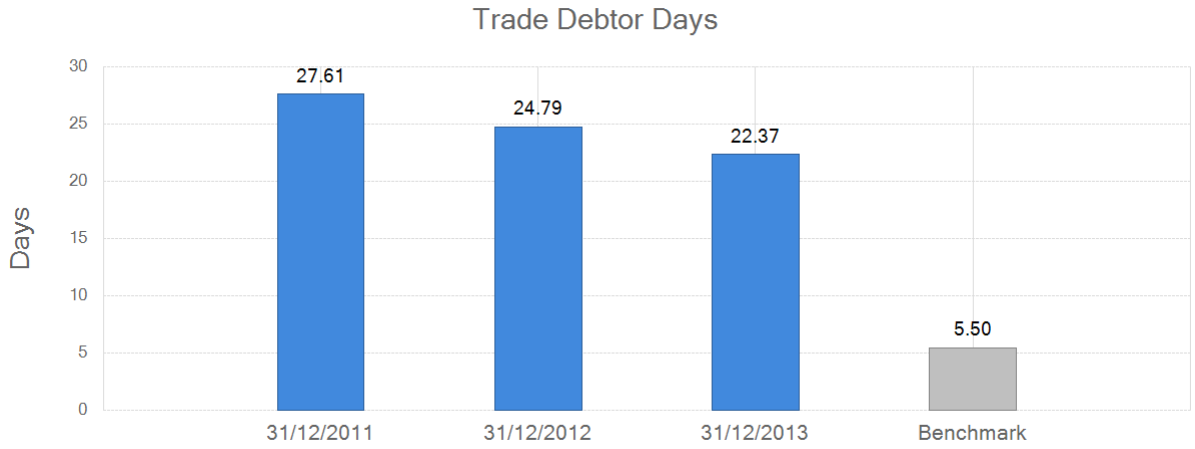
Generally, this metric measures the overall liquidity position of a business. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



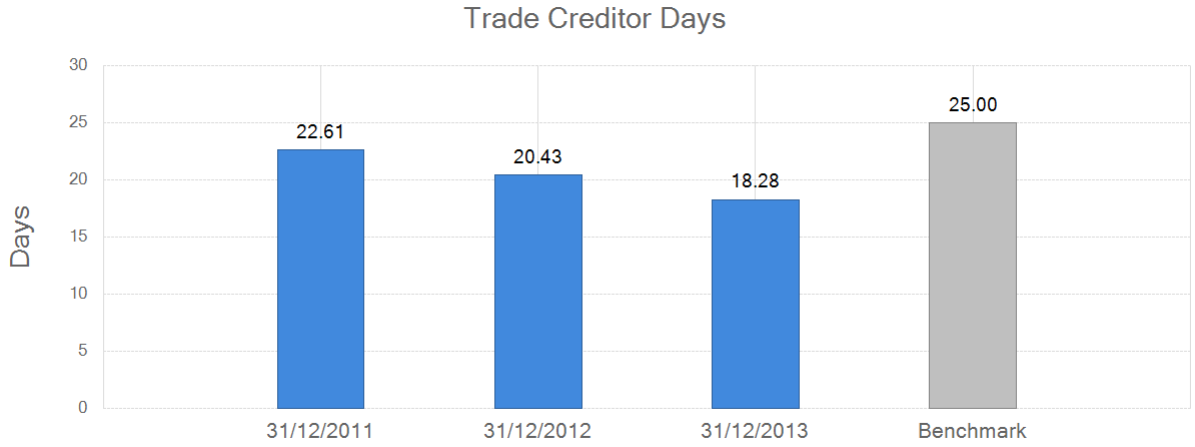
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are debtor accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.



This metric shows how much stock (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have stock for this metric. The lower the better.



This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



This ratio shows the average number of days that lapse between the purchase of material and labour, and payment for them. It is a rough measure of how timely a business is in meeting payment obligations.

Profits & Profit Margin

A measure of whether the trends in profit are favourable for the company.

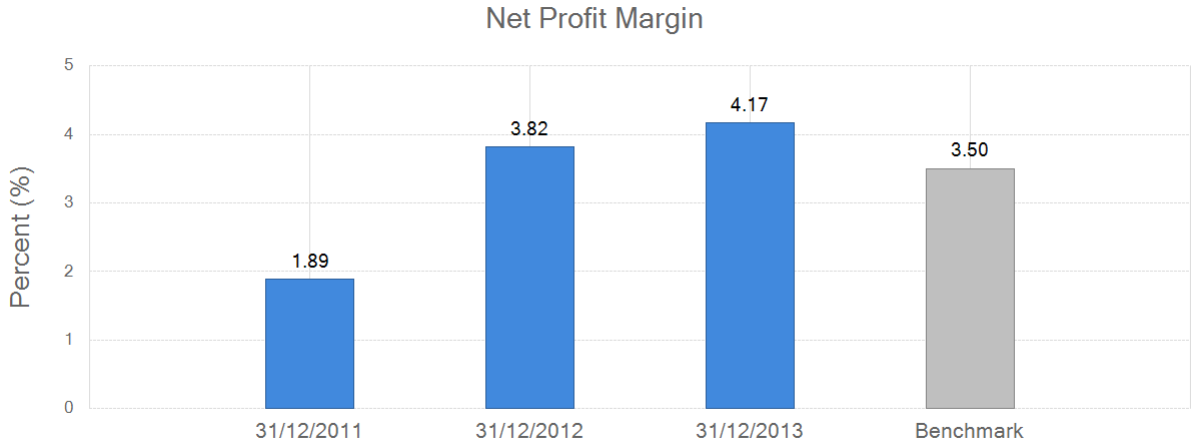
The company has achieved some mixed results in the profitability area at this time. It appears that overall profit health in this key area is about average at this time. The net profit margin is fairly good, as it was last period. The company also performed well on the operating cost side of the Profit and Loss Statement, as it has increased its net profit pounds this period. Even though gross profits (in pounds) are about where they were last period, net profit pounds have gone up significantly by 22.44% because the company cut some operating expenses.

The company's gross profit margin may be a concern at this time. Even though turnover rose by 12.40%, gross profits stayed relatively flat because the company's costs of sales rose so much, resulting in a lower gross profit margin. The company is now spending a higher percentage of each pound of turnover just to pay for its direct costs, which is generally unfavourable. Something seems out of line with gross margins as compared with last period. It is important not to see the solid increases in turnover devoured by less efficiency in the gross margin area.

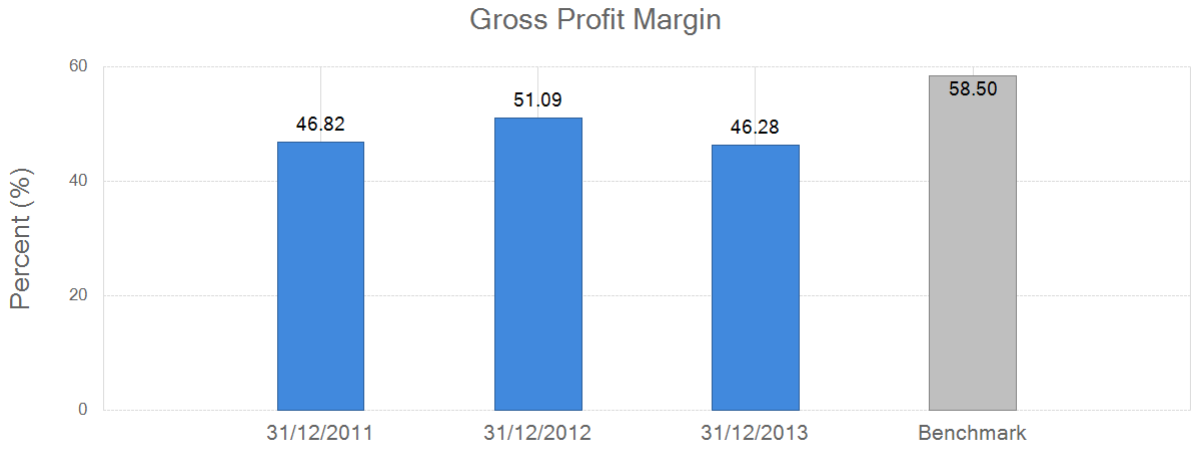
This is especially true given that the company's net profit margin is currently only about average. The company's earnings are in line with what other companies in the industry are earning, but not superior. This is illustrated in the graph area of the report. The company will want to increase its net profit margin over time as it increases turnover and profits, so it can be in the top tier of performers in this industry. It will not be able to achieve this if turnover increases are eliminated by higher costs of sales. Gross margin performance does

affect net profit margin performance.

Gross margins are a leverage tool, which means that small improvements here can drive large net profit improvements. Several questions that managers commonly ask themselves to improve gross margin performance include the following: 1) Who are the existing suppliers the company uses for stock or materials? Can managers increase the number of suppliers used and save some money on the units purchased? 2) Is there a better way to buy materials and/or stock? Can the company take advantage of volume discounts? Can it purchase less and still maintain turnover volume? 3) **Does the company have direct labour in the cost of sales?** If so, are there ways to manage staff by job or project? Can the company reward employees who perform better?



This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures what percentage of profit the company is generating for every pound of turnover it earns. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.



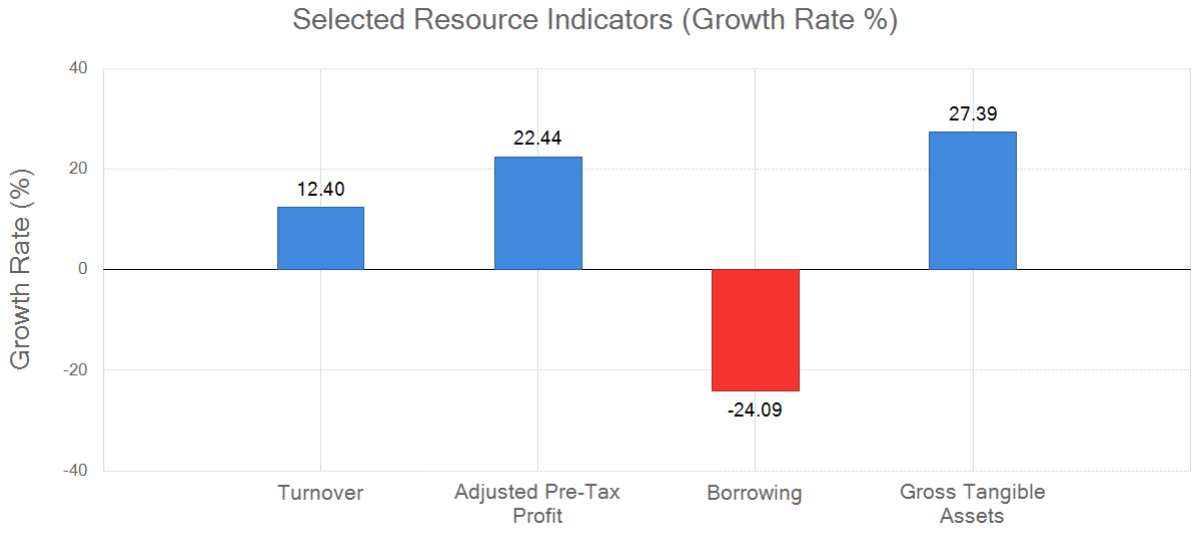
This number indicates the percentage of turnover that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates what percentage of gross profit can be generated by future turnover. Higher is normally better (the company is more efficient).

This metric shows advertising expense for the company as a percentage of turnover.

Turnover

A measure of how turnover is growing and whether this is satisfactory for the company.

The company's turnover has risen this period, which is clearly a positive result. This report does not focus on turnover results because this data tends to be straightforward to analyse. However, the company's fixed asset base grew at a **faster** rate than turnover. This means that "asset turns" (or the amount of revenue driven through each pound of fixed asset) have fallen slightly from last period, which might be considered unfavourable. It is possible that these new assets require some time to contribute to turnover, or that the assets were not purchased with the idea of increasing turnover. Managers should look for long-term trends in this area.



This data is based on the two most recent available periods.

Borrowing

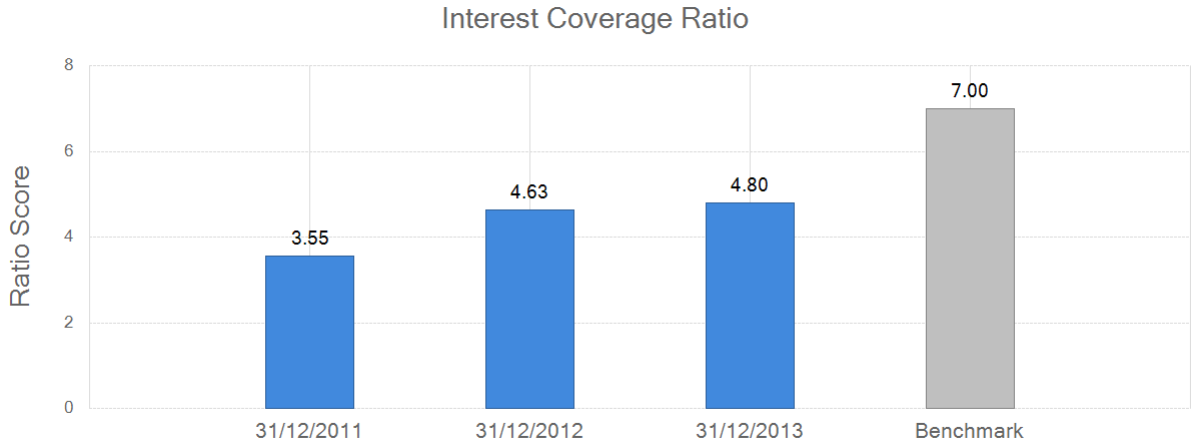
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

The purpose of borrowing money is to **improve** profitability through buying assets and making investments that will return more profitability than the cost of the borrowed funds. This is the concept of leverage. Good borrowing generally improves profitability.

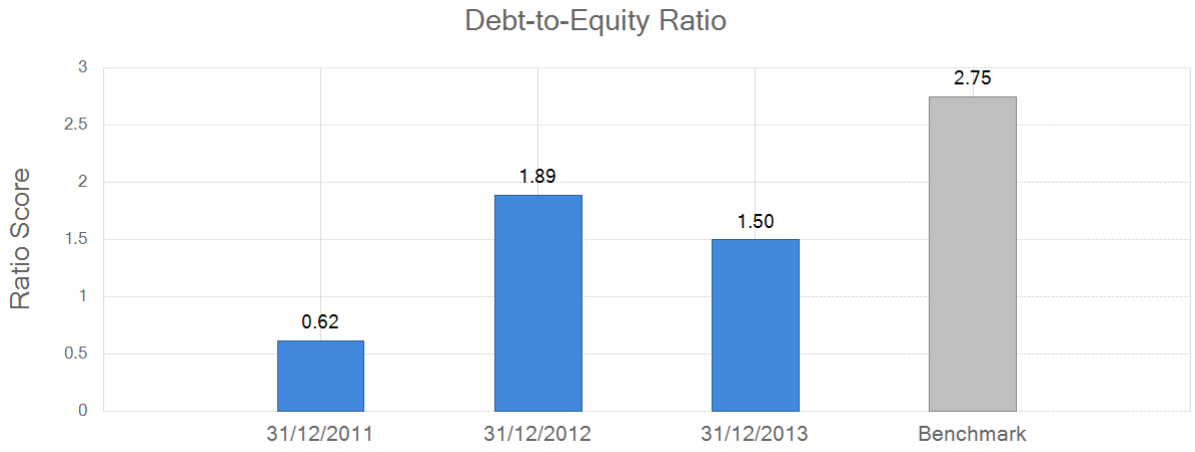
In this case, however, it was a lack of borrowing that accompanied better net profitability. Net profitability improved by 22.44% while the debt load was lowered. The company now

has less debt on the books and improved profitability, a very good combination. If the company can continue to improve profitability without debt, it may not be necessary to borrow right now, unless there is a very good opportunity available.

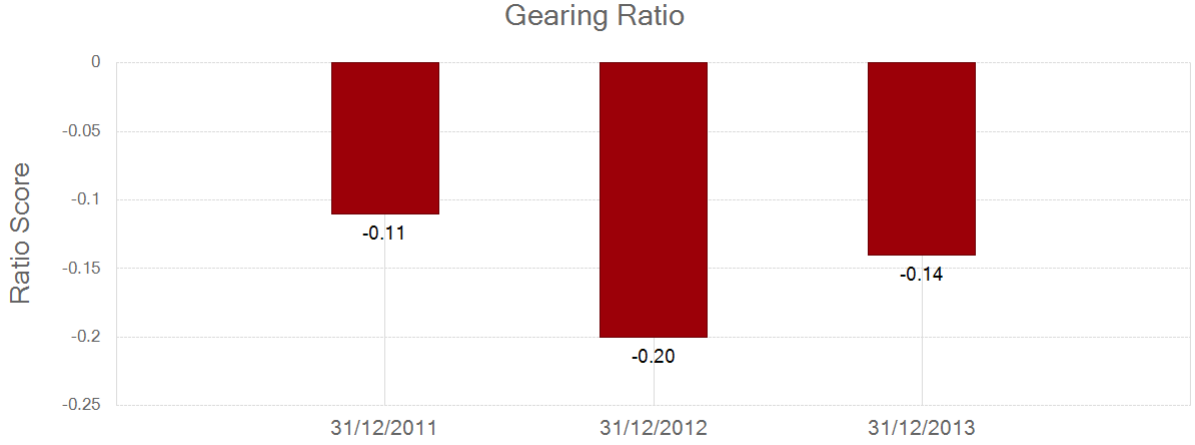
It should also be noted that the company is generating an average amount of earnings (before interest and non-cash expenses) relative to its cost of debt payments. For example, notice that the company's interest coverage ratio (EBITDA as compared to debt obligations) is in the normal range. "Normal" as defined in the context of this report means average but not necessarily great, so it would be important to monitor results in this area in the future. The company is also holding an average amount of debt as compared to equity (its debt to equity ratio is in the norm).



This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.



This Balance Sheet leverage ratio indicates the composition of a company's total capitalisation -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realise the return benefits of financial leverage.



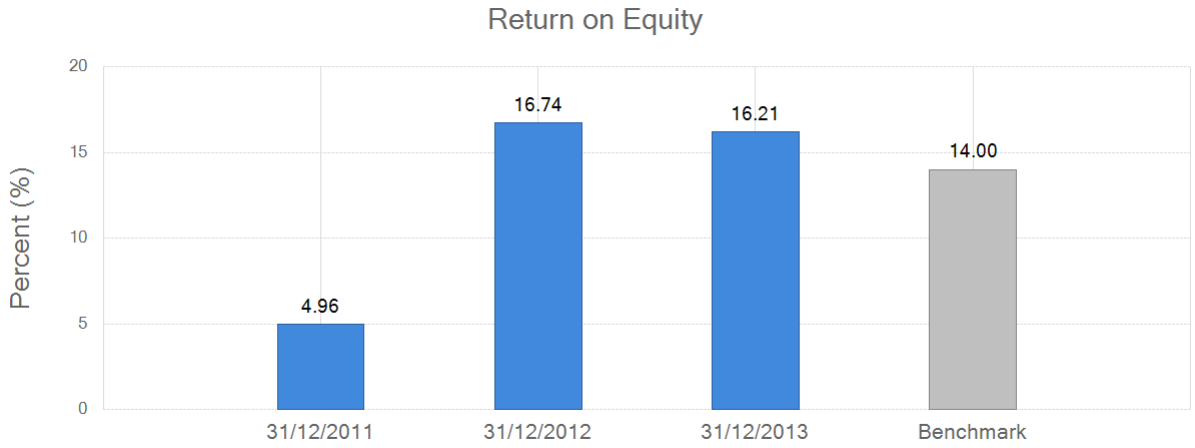
The Gearing Ratio is Net Borrowings divided by Shareholders funds. It is an expression of the amount of external borrowing versus the amount invested by shareholders. Net borrowings are bank loans and overdrafts minus cash in hand and other deposit balances. A lower ratio is generally better as it shows a the company mainly financed by equity. Higher gearing rates show an overdependence on debt for a large portion of the company's capital needs.

Assets

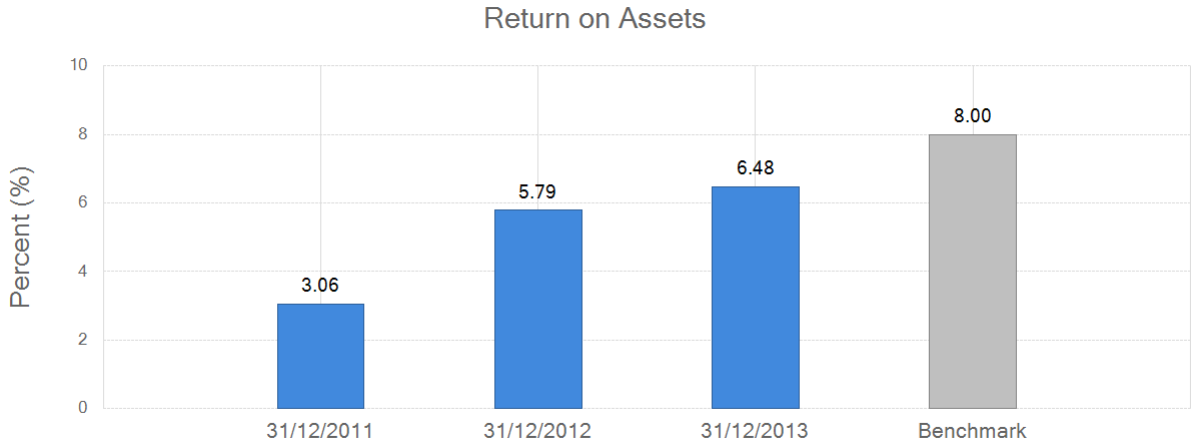
A measure of how effectively the company is utilising its tangible assets.

Significant assets were added and profitability concurrently improved considerably. This is always a favourable combination. Because net profits grew by 22.44%, the company may have further growth within its current asset base. The only point to be potentially concerned about is that profitability improved at a slower rate than asset expenditures. Generally, it is better to improve profitability at a faster rate than the rate by which assets (and other resources) grow. It is important to remember that assets are very similar to other types of costs.

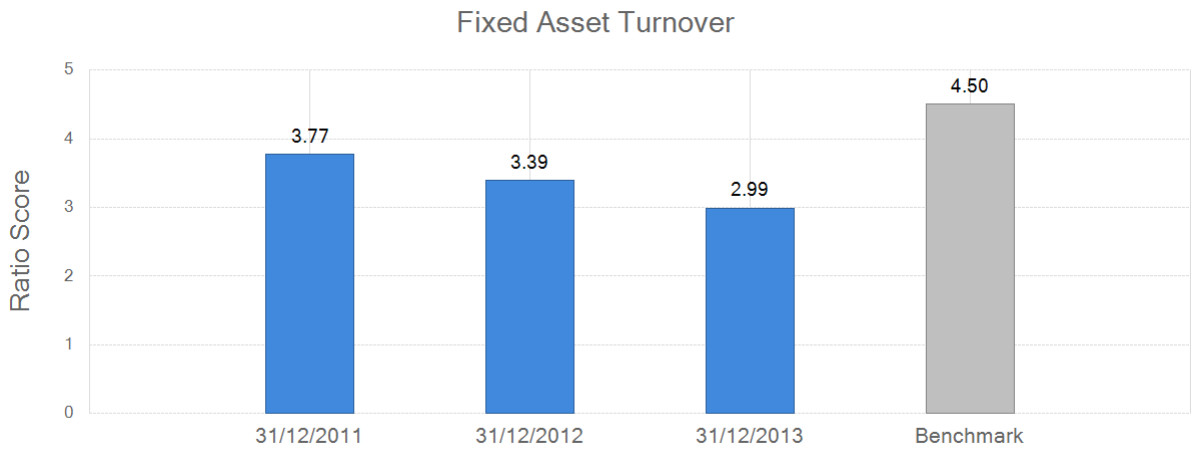
A few other points of relevance should be mentioned. Both return on assets and return on equity are both in the **normal** range as compared to other similar companies. It would seem that, if managers can get a good positive trend between operating profits and assets, raw returns for ROA and ROE will improve. Of course, normal returns are not a bad result here.



This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.



This calculation measures the business's ability to use its assets to create profits. Basically, ROA indicates what percentage of profit each pound of assets is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.



This asset management ratio shows the multiple of annualised turnover that each pound of tangible assets is producing. This indicator measures how well tangible assets are "throwing off" turnover and is very important to businesses that require significant investments in such assets. Readers should not emphasise this metric when looking at businesses that do not possess or require significant tangible assets. The higher the ratio, the more effective the company's investments in Net Property, Plant, and Equipment are.

Industry Scorecard

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	0.75	1.30 to 2.10	-42.31%
Explanation: Generally, this metric measures the overall liquidity position of a business. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.			
Quick Ratio = (Cash + Trade Debtors) / Total Current Liabilities	0.46	0.80 to 1.40	-42.50%
Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are debtor accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.			
Net Profit Margin = Adjusted Pre-Tax Profit / Turnover	4.17%	1.00% to 6.00%	0.00%
Explanation: This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures what percentage of profit the company is generating for every pound of turnover it earns. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.			
Stock Days = (Stock / COGS) * 365	31.94 Days	5.00 to 15.00 Days	-112.93%
Explanation: This metric shows how much stock (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have stock for this metric. The lower the better.			
Trade Debtor Days = (Trade Debtors / Turnover) * 365	22.37 Days	1.00 to 10.00 Days	-123.70%
Explanation: This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.			
Trade Creditor Days = (Trade Creditors / COGS) * 365	18.28 Days	10.00 to 40.00 Days	0.00%
Explanation: This ratio shows the average number of days that lapse between the purchase of material and labour, and payment for them. It is a rough measure of how timely a business is in meeting payment obligations.			
Interest Coverage Ratio = EBITDA / Interest Payments	4.80	4.00 to 10.00	0.00%
Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.			
Debt-to-Equity Ratio = Total Liabilities / Total Equity	1.50	1.50 to 4.00	0.00%
Explanation: This Balance Sheet leverage ratio indicates the composition of a company’s total capitalisation -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realise the return benefits of financial leverage.			
Return on Equity = Net Income / Total Equity	16.21%	8.00% to 20.00%	0.00%
Explanation: This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.			
Return on Assets = Net Income / Total Assets	6.48%	6.00% to 10.00%	0.00%
Explanation: This calculation measures the business's ability to use its assets to create profits. Basically, ROA indicates what percentage of profit each pound of assets is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.			
Fixed Asset Turnover = Turnover / Tangible Assets	2.99	2.00 to 7.00	0.00%
Explanation: This asset management ratio shows the multiple of annualised turnover that each pound of tangible assets is producing.			

This indicator measures how well tangible assets are "throwing off" turnover and is very important to businesses that require significant investments in such assets. Readers should not emphasise this metric when looking at businesses that do not possess or require significant tangible assets. The higher the ratio, the more effective the company's investments in Net Property, Plant, and Equipment are.

Gross Profit Margin = Gross Profit / Turnover	46.28%	52.00% to 65.00%	-11.00%

Explanation: This number indicates the percentage of turnover that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates what percentage of gross profit can be generated by future turnover. Higher is normally better (the company is more efficient).

Advertising to Turnover = Advertising / Turnover	2.55%	1.25% to 5.00%	0.00%

Explanation: This metric shows advertising expense for the company as a percentage of turnover.

Z-Score = (6.56 * X1 + 3.26 * X2 + 6.72 * X3 + 1.05 * X4) X1 = (Current Assets - Current Liabilities) / Total Assets; X2 = Retained Earnings / Total Assets; X3 = EBIT / Total Assets; X4 = Total Equity / Total Liabilities;	2.06	1.10 to 2.60	0.00%

Explanation: The Z-Score is a ratio which measures the overall health of a business. In some cases, it can be used as an early predictor of a business's probability of bankruptcy in the next year. How to interpret the Z-Score: a score of 2.60 or above implies a low risk of bankruptcy; a score between 1.10 and 2.60 is an average risk; a score of 1.10 or lower signals a high risk of bankruptcy.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER:
Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (chartered accountant, banker, financial planner, attorney, etc.).