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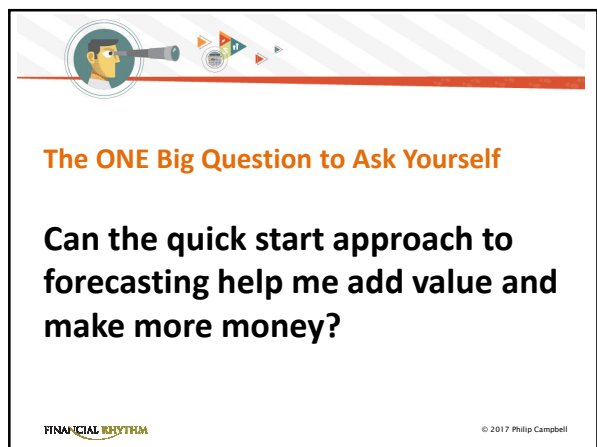
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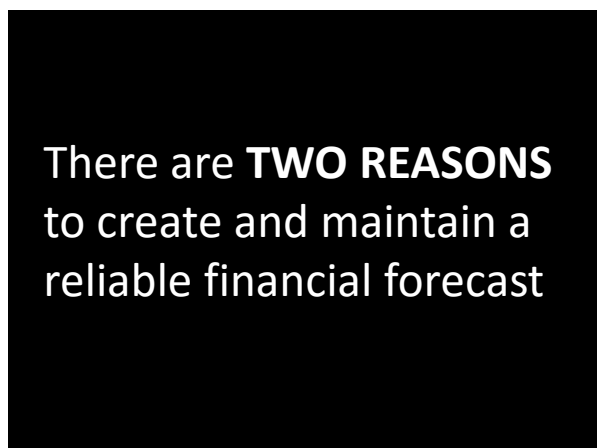
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We Can Help Create a Bigger and Brighter Future!



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## How to Make Work Fun (and Rewarding)

- Think like an owner
- Act like an owner
- Become an owner

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### A Reliable Financial Forecast

- ✓ **Reliable** – **Unbiased**, reality-based expectation of financial results that is designed for **decision-making** (not precision).
- ✓ **Financial Forecast** - A full set of forward-looking **financial statements** that includes a 2-minute summary.

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"Some would call 'on course to hit a rock' a bad forecast. Assuming it is true, it is a *good* forecast, even though it contains bad news."

"I would much rather have good forecasts with bad news than a bad forecast with good news."



- Bjarte Bogsnes,  
*Implementing Beyond Budgeting*

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"If there were only one thing that you could take away from this book it is this: **Targets and forecasts are not the same.**"

"A forecast is what we *think* will happen. A target is what we would *like* to happen."



- Steve Player & Steve Morlidge,  
*Future Ready*

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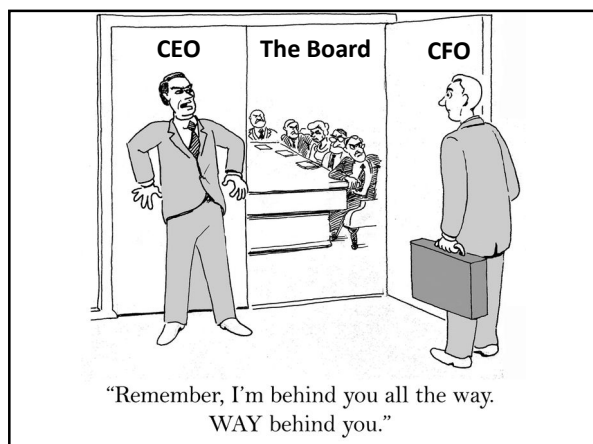
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### Benefits of a Reliable Financial Forecast

- Create "permission" to provide bad news
- Help you (and others) think like owners
- Enhance your influence and credibility
- Create a deeper understanding of the business model
- Answer the BIG financial questions
- Reduce the chance of error in the financial statements

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**Cool  
Restaurants,  
Inc.**

**A Fun  
Forecasting  
Example**

**Chili  
Pepper  
is  
cool**

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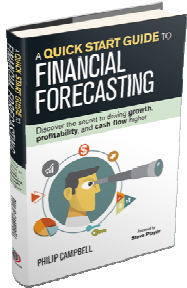
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Quick Start Principles Based on My  
New Book



- Release date is July 12<sup>th</sup>
- Complimentary hardcover available after the session
- Link to complimentary electronic version

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Summary of Significant Accounting  
Policies

Accounting Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to **make estimates and assumptions** that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. **Actual results could differ from estimates.**

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10 Rules for Creating a Forecast You Can Trust

1. It's all about decision making, not precision

2. Think top-down, not bottom-up

3. Model a full set of financial statements

4. First look back, then look forward

5. Understand the high-level company strategy and expectations

6. Simplify, simplify, simplify

7. Create a repeatable process

8. Be conservative

9. Condense the results to a 2-minute summary

10. Start for your eyes only

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What two numbers can you multiply together to get revenues?

• Number of customers × average ticket

• Hours incurred × average billing rate

• Gallons × average selling price

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**Question:** How many people will you have to rely on to provide you with accurate estimates for your forecast?

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First Look Back, Then Look Forward



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Create a Repeatable Process



THE MONTHLY FINANCIAL RHYTHM

Month 1	Month 2	Month 3...
		

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Condense  
the results  
to a  
2-minute  
summary



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“If you can’t explain it simply, you don’t understand it well enough.”

- Albert Einstein

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### The 2-Minute Summary

Memo to The CEO

Based on our growth plan for the coming year, we will need to raise \$1.1 million to \$1.3 million in cash by June 30. The primary driver of the need to raise cash is the plan for launching the new division in Texas. The expansion is forecast at \$3.0 to \$3.5 million driven primarily by the capital expenditures and first-year operating losses.

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**TOP SECRET**

**TOP SECRET**

**FOR YOUR EYES ONLY**

**CONFIDENTIAL**

**CLASSIFIED**

**FOR YOUR EYES ONLY**

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### The 3-2-1 Quick Start to Forecasting

- 3** List **3 questions** the forecast will answer.
- 2** **2 numbers** is the limit for each assumption.
- 1** Only **1 person** creates the forecast.

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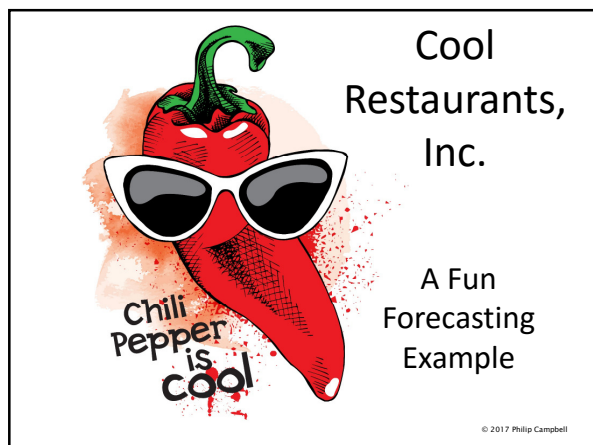
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### Cool Restaurants Summary (Last Year)

- Founded in Austin, TX in 1982
- Went public in July 2012
- Had 32 restaurants when they went public
- Now has 80 restaurants in 16 States at December 2016
- Company owned restaurants (not franchised)

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### Cool Restaurants Summary (Last Year)

- Revenues - \$331 million
- Average revenue per location - \$4.6 million
- Average ticket - \$14.48
- Square footage from 5,300 to 12,200
- Seating for 225 to 400 customers
- Open for lunch and dinner 7 days a week
- Serve 316,000 customers per location per year

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### Growth Plan for 2017

- Opening 11 – 14 restaurants each year
- Expect capex to be \$39.0 to \$44.0 million
- Capex per store is \$1.9 to \$2.5 million (net of tenant allowances of \$0 to \$1.0 million)
- Capex includes \$6.6 million for remodels and maintenance of existing stores and an expansion of the corporate office
- Usually 7 stores under construction at a time

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### 3 questions the forecast will answer

- How much money will they make this quarter?
- Will they need to borrow money to achieve their growth plans this quarter?
- What will the 3 largest drivers of cash be this quarter?

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Cash is The Real Bottom Line

Cash Flow Focus Report	Actual
(Amounts in thousands)	Year
	2016
Beginning cash balance	\$ 8,529
Net income	17,244
Depreciation and amortization	15,081
Accounts payable and accrued liabilities	4,504
Lease and tax liabilities, non current	8,124
Capital expenditures	(41,885)
All other changes, net	2,097
Net cash flow	5,165
Ending cash balance	\$ 13,694

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Cash is The Real Bottom Line

	Actual	Actual	Actual	Actual
Cash Flow Focus Report	Mar	Jun	Sep	Dec
(Amounts in thousands)	2016	2016	2016	2016
Beginning cash balance	\$ 8,529	\$ 4,824	\$ 13,769	\$ 13,944
Net income	4,532	5,780	4,599	2,333
Depreciation and amortization	3,492	3,707	3,821	4,076
Accounts payable and accrued liabilities	(3,724)	11,180	(2,706)	809
Capital expenditures	(11,053)	(11,837)	(11,319)	(10,393)
Debt	0	0	0	0
All other changes, net	3,944	115	5,780	2,925
Net cash flow	(2,809)	8,945	175	(250)
Ending cash balance	\$ 5,720	\$ 13,769	\$ 13,944	\$ 13,694

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Exercise #1

Forecast revenue and depreciation expense for next quarter

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## Forecasting Revenues?

- Number of customers
- Average ticket
- Size of restaurant
- Restaurant location
- Same store sales
- New restaurant sales
- Rural vs. big city locations
- New or old restaurant
- Location demographics
- Number of tables
- Table size
- Provide a take-out option or not
- Provide a delivery option or not
- Liquor vs. food sales
- Lunch vs. dinner traffic

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## Store Count X Average Revenue

Revenue		Ending Store Count	Average Revenue Per Store		Same Store Sales
(Amounts in Thousands)				Revenue	
Quarter ended December 2015		69	\$ 1,028	\$ 70,961	3.2%
Quarter ended March 2016		71	\$ 1,099	\$ 78,054	3.2%
Quarter ended June 2016		75	\$ 1,172	\$ 87,909	1.0%
Quarter ended September 2016		77	\$ 1,112	\$ 85,597	0.3%
Quarter ended December 2016		80	\$ 988	\$ 79,053	-1.1%
Quarter ending March 2017					

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## Store Count X Average Depr. Per Store

Depreciation			Depreciation Per Store	Depreciation Expense
(Amounts in Thousands)				
Quarter ended December 2015			\$ 50	\$ 3,422
Quarter ended March 2016			\$ 49	\$ 3,492
Quarter ended June 2016			\$ 50	\$ 3,723
Quarter ended September 2016			\$ 50	\$ 3,837
Quarter ended December 2016			\$ 51	\$ 4,092
Quarter ending March 2017				


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### Balance Sheet and Cash Flow

- Accounts receivable and inventory
- Other assets
- Capital expenditures
- Accounts payable & accrued liabilities
- Deferred rent, lease incentives, and taxes
- Debt and/or equity

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Category	Forecast Approach
Accounts receivable and inventory	Days Sales Outstanding (DSO)/Days Inventory Outstanding (DIO)
Other assets	% of revenue
Capital expenditures	One number
Accounts payable & accrued liabilities	Days Payables Outstanding (DPO)
Deferred rent, lease incentives, and taxes	% of revenue
Debt and/or equity	One number

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### Exercise #2

Forecast capital expenditures and accounts payable & accrued liabilities

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## Accounts Payable & Accrued Liabilities

Accounts Payable & Accrued Liabilities				Days Payable Outstanding	AP & Accrued Liabilities	Average Daily Revenues
(Amounts in Thousands)						
Quarter ended December 2015				32	\$ 25,008	\$ 780
Quarter ended March 2016				25	\$ 21,284	\$ 858
Quarter ended June 2016				31	\$ 29,949	\$ 966
Quarter ended September 2016				28	\$ 26,396	\$ 941
Quarter ended December 2016				32	\$ 28,106	\$ 869
Quarter ending March 2017						

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## Capital Expenditures

Capital Expenditures				Capital Expenditures
(Amounts in Thousands)				
Quarter ended December 2015				\$ (9,679)
Quarter ended March 2016				\$ (11,053)
Quarter ended June 2016				\$ (12,141)
Quarter ended September 2016				\$ (10,401)
Quarter ended December 2016				\$ (10,206)
Quarter ending March 2017				

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## Review the Forecast

- Drop the exercise assumptions in the XLS
- Show the forecast results in the Cash Flow Focus Report view (in the XLS)
- Answer the three questions (next slide)

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### 3 questions the forecast will answer

- How much money will they make this quarter?
- Will they need to borrow money to achieve their growth plans this quarter?
- What will the 3 largest drivers of cash be this quarter?

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### How Did We Do?

- Actuals for the March Qtr vs forecast
- And the company is...

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### The Benefits for YOU

- Help you drive growth, profitability, and cash flow
- Become more valuable
- Makes work more fun and enjoyable
- Reduces the risk of error in your financial statements

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### The ONE Big Question to Ask Yourself

Can the quick start approach to forecasting help me add value and make more money?

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### Questions? Yes... Buts?

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### Your Next Step

1. List three benefits for YOU
2. Take a baby step with one month
3. Start for your eyes only

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Downloads and Contact Information

- [financialrhythm.com/live-future-ready/](http://financialrhythm.com/live-future-ready/)
- [www.ILoveForecasting.com](http://www.ILoveForecasting.com)
- Philip Campbell
  - 512.944.3520
  - pcampbell@pdq.net

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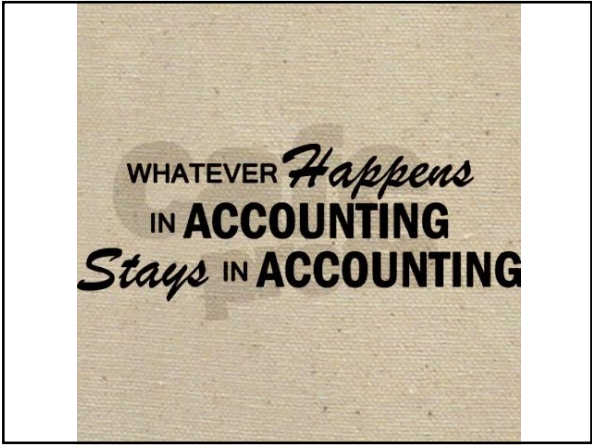
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