Quick Start Forecasting Exercise

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Cool Restaurants, Inc. Forecasting Example By Philip Campbell

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Here's How the Exercises Will Work

The purpose of this forecasting exercise is to provide a fun way to use the quick start forecasting principles from Philip's presentation. We'll walk through an example using an 80-restaurant chain that was born in 1982 in Austin, Texas. Cool Restaurants is a unique concept that has restaurants in sixteen states and almost \$400 million in revenues. They are a public company and we will create a financial forecast for the upcoming quarter. The example will be the quarter ending March 2017. (Cool Restaurants is not their real name. I'll share the real name once we complete our exercise so there is no peeking at their numbers online.) ©

In Exercise 1, we will begin the quick start forecasting approach by considering the assumptions necessary to forecast the income statement for the Quarter ending March 2017. For purposes of this exercise, you will provide assumptions for two numbers on the income statement: Revenue and depreciation expense.

In Exercise 2, we will use the quick start forecasting approach to forecast the balance sheet and cash flows for the quarter. For purposes of this exercise, you will provide assumptions for two numbers that impact the balance sheet and cash flows: Accounts payable & accrued liabilities and capital expenditures.

Background on Cool Restaurants, Inc.

Cool Restaurants was born in Austin, Texas in 1982. They are a fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex Mex inspired food. Here are some fun facts about Cool Restaurants:

- The founders opened their first restaurant in 1982 in Austin, Texas
- Became a public company in July 2012
- They had 32 restaurants when they went public
- Now they have 80 restaurants in 16 States at December 2016
- Company owned restaurants (not franchised)
- Revenues \$331 million in 2016
- Market capitalization of \$460 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
- They have been opening 11 14 restaurants each year
- They expect capex in 2017 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 in 2017 includes \$6.6 million for remodels and maintenance of existing stores and an expansion of the corporate office
- Usually 7 stores under construction at any given time

Exercise 1

We will begin the quick start forecasting approach by considering the assumptions necessary to forecast the income statement for the Quarter ending March 2017. For purposes of this exercise, you will provide assumptions for two numbers on the income statement: Revenue and depreciation expense.

Revenue

The two numbers we will use to arrive at the revenue forecast is number of stores open at the end of the quarter multiplied by the average revenue per store for the quarter. Here are the historical results for the previous five quarters:

Revenue	Ending	Average		Same
	Store	Revenue		Store
(Amounts in Thousands)	Count	Per Store	Revenue	Sales
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				

Ending store/restaurant count - Based on the historical results, write down in the shaded area above what you believe the ending store count is likely to be at the end of the quarter.

Average revenue per store - Based on the historical results, write down in the shaded area above what you believe the average revenue per store will likely be for the quarter.

Multiply the two numbers you provided to arrive at the revenue forecast.

Depreciation Expense

The two numbers we will use to arrive at depreciation expense is number of stores open at the end of the quarter multiplied by the average depreciation expense per store for the quarter. Here are the historical results for the previous five quarters:

Depreciation							
				Depreci	ation	Depr	eciation
(Amounts in Thousands)			Per St	Per Store		Expense	
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		5	\$	50	\$	3,837	
Quarter ended December 2016			\$	51	\$	4,092	
Quarter ending March 2017							

Depreciation per store - Based on the historical results, write down in the shaded area above what you believe the average depreciation expense per store will be for the quarter.

Multiply the average by the ending store count from the previous page to arrive at the depreciation expense forecast.

Exercise 2

The next step in the quick start forecasting process is to forecast the balance sheet and cash flows for the Quarter ending March 2017. For purposes of this exercise, you will provide assumptions for two numbers that impact the balance sheet and cash flows: Accounts payable & accrued liabilities and capital expenditures.

Accounts Payable & Accrued Liabilities

The two numbers we will use to arrive at the forecasted balance of accounts payable & accrued liabilities Days of Payables Outstanding (DPO) multiplied times average daily revenues. The average daily revenue number is calculated from the revenue number you forecast in exercise 1. Here are the historical results for the previous five quarters:

Accounts Payable & Accrued Liabilities		Days	AP &		Average		
			Payable	A	ccrued	D	aily
(Amounts in Thousands)			Outstanding	Lia	bilities	Rev	enues
Quarter ended Decembe	r 2015		32	\$	25,008	\$	780
Quarter ended March 201	16		25	\$	21,284	\$	858
Quarter ended June 2016			31	\$	29,949	\$	966
Quarter ended Septembe	er 2016		28	\$	26,396	\$	941
Quarter ended Decembe	r 2016		32	\$	28,106	\$	869
Quarter ending March 20	17						

Days of Payables Outstanding (DPO) - Based on the historical results, write down in the shaded area above what you believe the DPO will likely be at the end of the quarter.

Capital Expenditures

For capital expenditures, we are going to use only one number for our forecast. In this case trying to use number of stores under construction times average cost per store requires information that we do not have on hand. And it would be easy to go astray with that approach. Because the total capital expenditures for the last five quarters has been fairly consistent, and the company is adding about the same number of new restaurants each year, we will provide our estimate for the capital expenditures for the quarter in one number. (Remember, two numbers are the limit. When two numbers create a challenge, then we use one number.) Here are the historical results for the previous five quarters:

Capital Expenditure	es			
		Capital		
(Amounts in Thousands)		Expe	enditures	
Quarter ended Decembe	r 2015	\$	(9,679)	
Quarter ended March 201	16	\$	(11,053)	
Quarter ended June 2016		\$	(12,141)	
Quarter ended Septembe	er 2016	\$	(10,401)	
Quarter ended Decembe	r 2016	\$	(10,206)	
Quarter ending March 20	17			

Capital Expenditures - Based on the historical results, and the fact that the company is adding approximately the same number of stores each year, write down in the shaded area above what you believe capital expenditures will likely be for the quarter.

To download the spreadsheet model with the full company example and related analysis and support, go to <u>http://financialrhythm.com/live-future-ready.</u>