



Welcome AFA GenXt Kickstart Roadshow February, 2009

Melbourne





Session 2: Malcolm Arnold - NAB

**“Future Proof Your Business
Cashflows.”**



NAB Financial Planner Banking



- Currently 25 dedicated business bankers nationally who specialise in provide banking services to financial planning businesses – and continuing to expand
- Over 7 years experience in servicing the industry
- Funding already in place for in excess of 1000 financial planning businesses nationally
- Services provided to all financial planners for any transaction sizes and under any licensing arrangement



Why is cash flow important ?



Cash is like oxygen to your business – and it's our experience as a bank that all businesses that fail have at least one thing in common – they run out of cash !



Most common causes of cash flow stress



- Declining revenues
- Unexpected bills or expense claims
- Taxes
- Chasing payment from customers
- Missing invoices, credit card or loan payment due dates
- Receiving reminders from suppliers



Impact of cash flow stress



- 93% of business owners say they worry or stress about cash flow
 - 86% claim cash flow stress affects their personal or home life
 - 58% of business owners have taken a pay cut as a result of cash flow troubles
 - 36% claim cash flow problems have put stress on relationships with customers and suppliers
 - 15% of business owners have lost clients as a result of cash flow problems
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- Loss of staff
 - Need to sell assets
 - Reduced business value
 - Insolvency / business failure



Where do business owners go for help with cash flow



- Only 22% of owners get help in managing their cash flows
- Only 44% of small business owners have access to help in managing cash flow if they need it
- Most likely sources of help in manage cash flow are:-
 - Accountants (77% of respondents)
 - Family member (36%)
 - Bank Manager (23%)
 - Mentor (19%)
 - Colleague (19%)



Profit versus cash flow



An error many business owners make is to focus on their businesses profit and loss statement rather than cash flows. This can be a fatal mistake due to the fact that healthy profits can mask a businesses cash flow problems



Profit versus cash flow



- Profit and cash flow are two entirely different concepts, each with different results
- The concept of profit is somewhat narrow, and only looks at income and expenses at a certain point in time (like financial year end). The profit measure is the difference between recorded sales and costs within a specified period. Although a vital indicator of the performance of a business, the generation of a profit does not necessarily guarantee the existence of cash and the development and survival of the business.
- Cash flow is more dynamic. It is concerned with the movement of money in and out of a business and more importantly, it is concerned with the time at which the movement of the money takes place. The concept of cash flow is more in line with reality, with net cash flow being the balance of cash being received in and being paid out by the business over a period of time



Profit



Income

Professional fees \$1,048,000

Expenses

Operating Expenses \$750,500

Net Operating Profit before tax \$297,500

Income Tax \$89,250

Net Operating Profit after tax \$208,250



Cash flow

Accurately measures timing of tax payments



	Jan	Feb	March	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
Income													
Cash Receipts	\$65,000	\$91,000	\$84,500	\$84,500	\$91,000	\$97,500	\$104,000	\$97,500	\$91,000	\$86,000	\$84,500	\$71,500	\$1,048,000
Expenses													
Cash Payments	\$58,558	\$45,716	\$62,368	\$61,166	\$48,608	\$53,523	\$68,461	\$51,958	\$53,303	\$67,866	\$50,548	\$68,421	\$690,496
Net Operating Cash flow	\$6,442	\$45,284	\$22,132	\$23,334	\$42,392	\$43,977	\$35,539	\$45,542	\$37,697	\$18,134	\$33,952	\$3,079	\$357,504
Less Tax payments	\$31,812			\$31,812			\$31,812			\$31,812			\$127,248
Net Trade Receipts	-\$25,370	\$45,284	\$22,132	-\$8,478	\$42,392	\$43,977	\$3,727	\$45,542	\$37,697	-\$13,678	\$33,952	\$3,079	\$230,256
<i>Less Capital Payments</i>													
Principal repayments on Bank Loan	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$30,000
Capital expenditures		\$12,000									\$10,000		\$22,000
<i>Plus Capital Receipts</i>													
Sale of Assets										\$8,000			
New loans													
Net Cash flow	-\$27,870	\$30,784	\$19,632	-\$10,978	\$39,892	\$41,477	\$1,227	\$43,042	\$35,197	-\$8,178	\$21,452	\$579	\$178,256
Opening Bank balance	\$17,000	-\$10,870	\$19,914	\$39,546	\$28,568	\$68,460	\$109,937	\$111,164	\$154,206	\$189,403	\$181,225	\$202,677	
Closing Bank Balance	-\$10,870	\$19,914	\$39,546	\$28,568	\$68,460	\$109,937	\$111,164	\$154,206	\$189,403	\$181,225	\$202,677	\$203,256	

Includes capital items excluded from P & L

Cash flow reveals negative cash flows in January not covered by cash in bank – funding therefore required

Negative cash flow these months funded by cash in bank

Positive cumulative cash flows of \$178,256 – versus P & L profit of \$208,250



Lets consider the current market ?



- In which a successful financial planning practice operates on a net profit margin of somewhere around 30-35% of revenue
- Where circumstances over the past 12 months have resulted in revenue declines within some financial planning practices of 30% or more



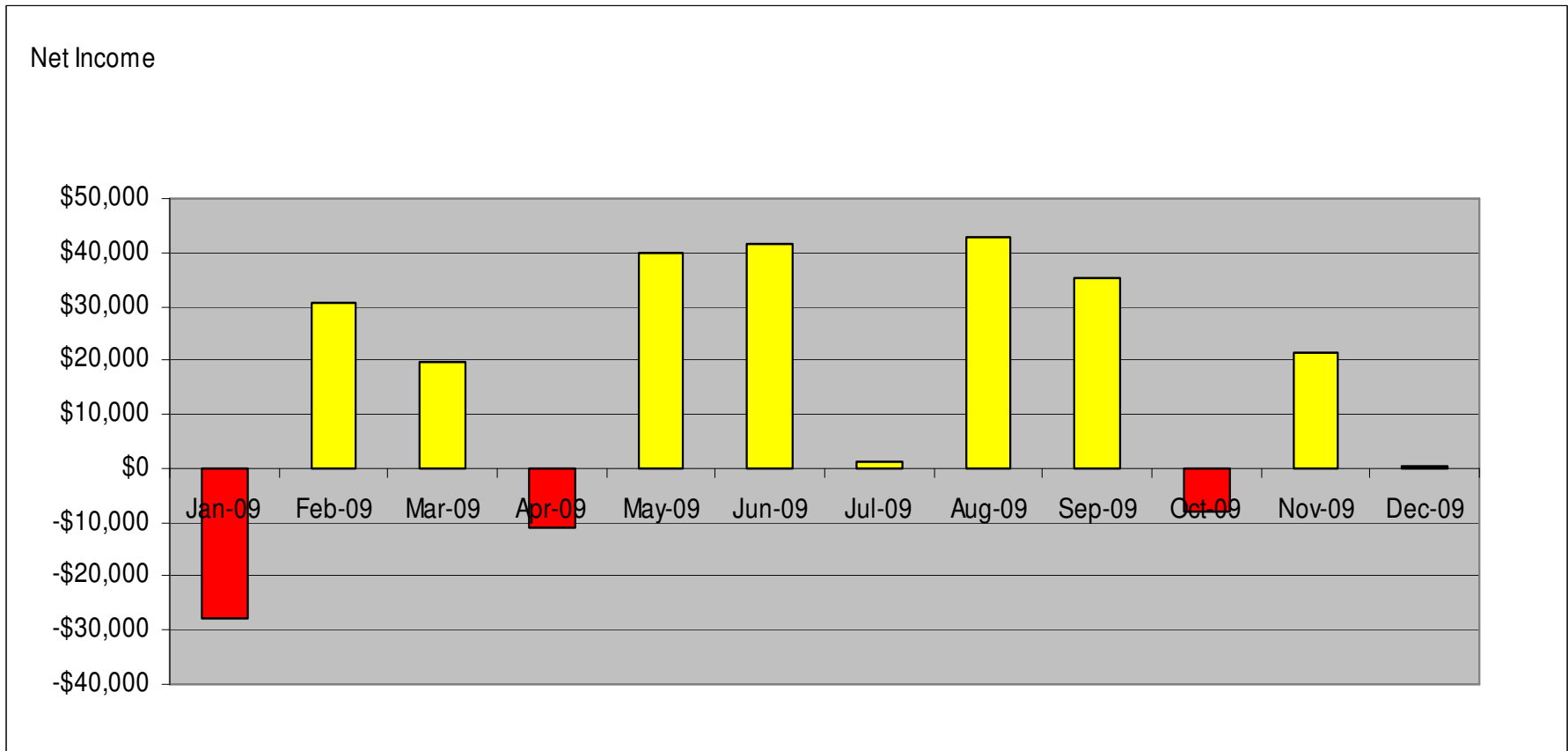
What has been the outcome ?



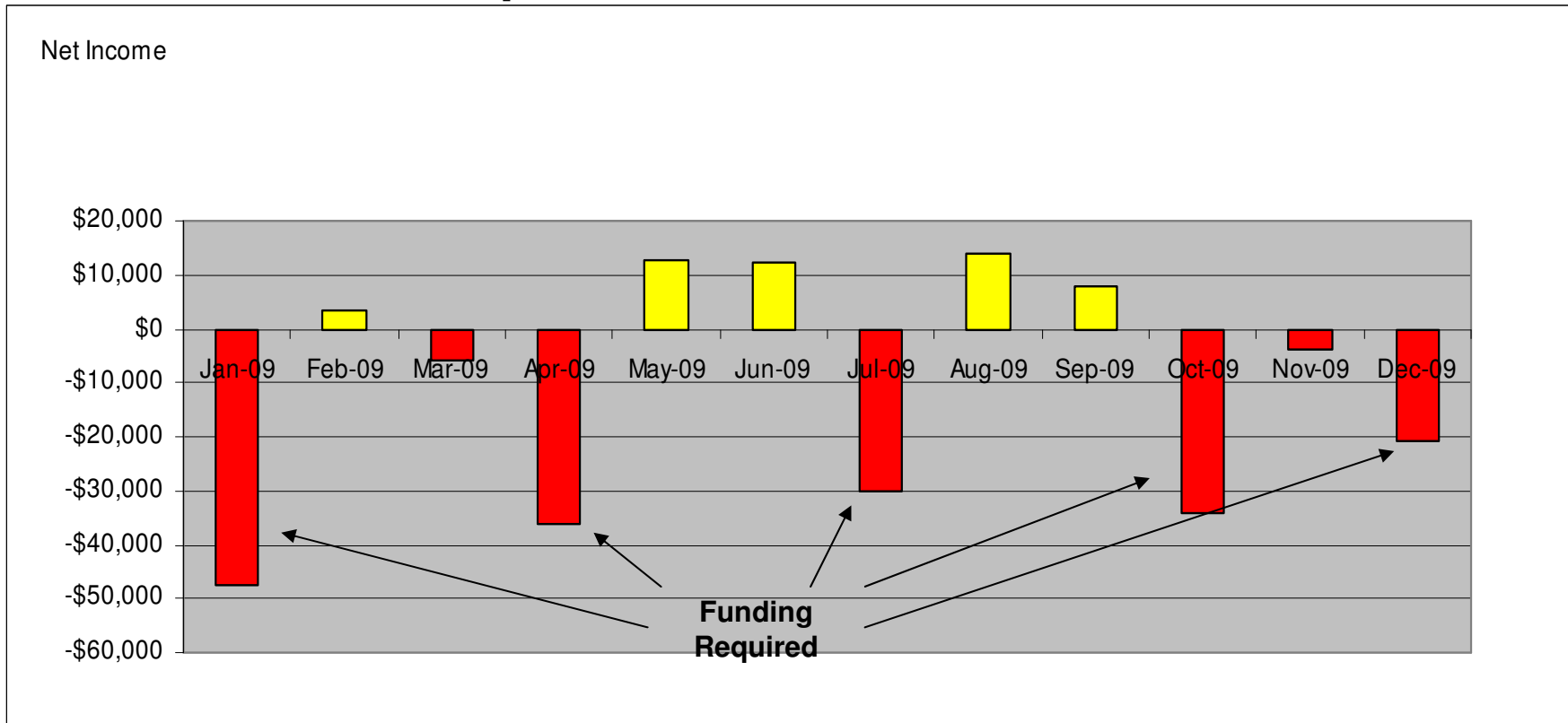
Few businesses have been immune with almost all financial planning practices across the country feeling the pinch of tighter cash flows given the need to continue to pay staff wages, rent and other fixed costs while incoming cash has continued to fall



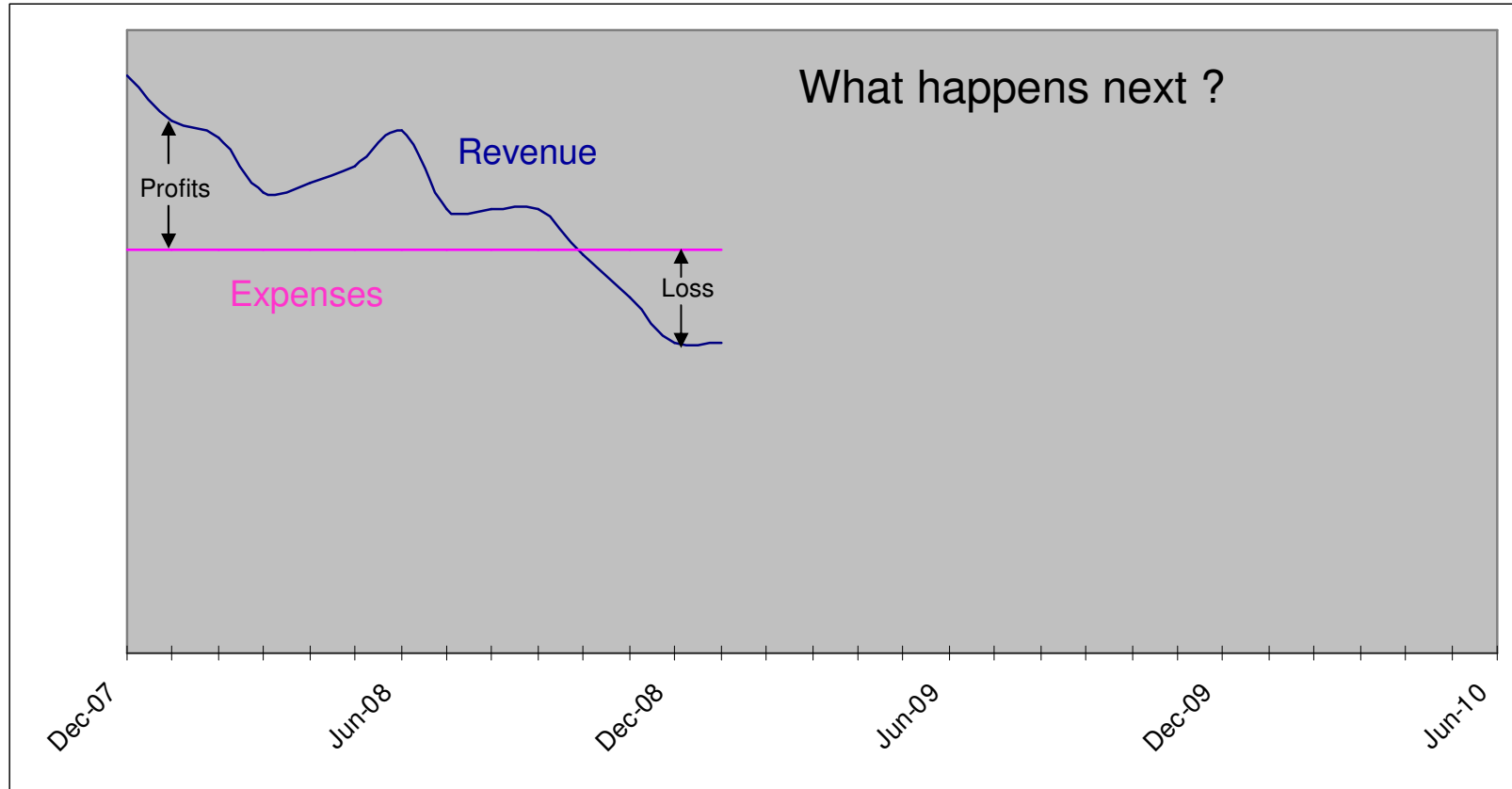
Cash flow Case Study



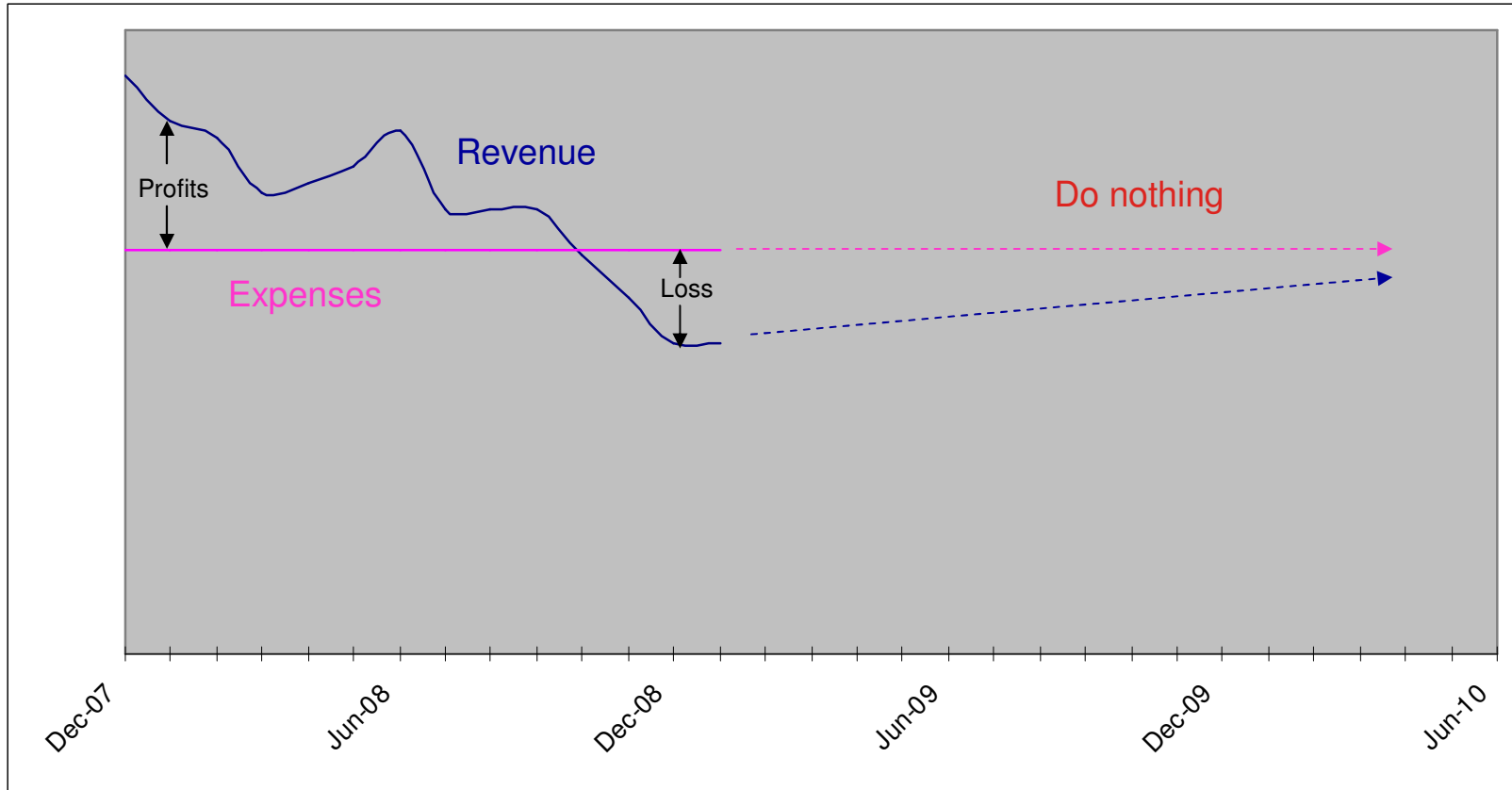
Impact on cash flows from a 30% drop in revenue



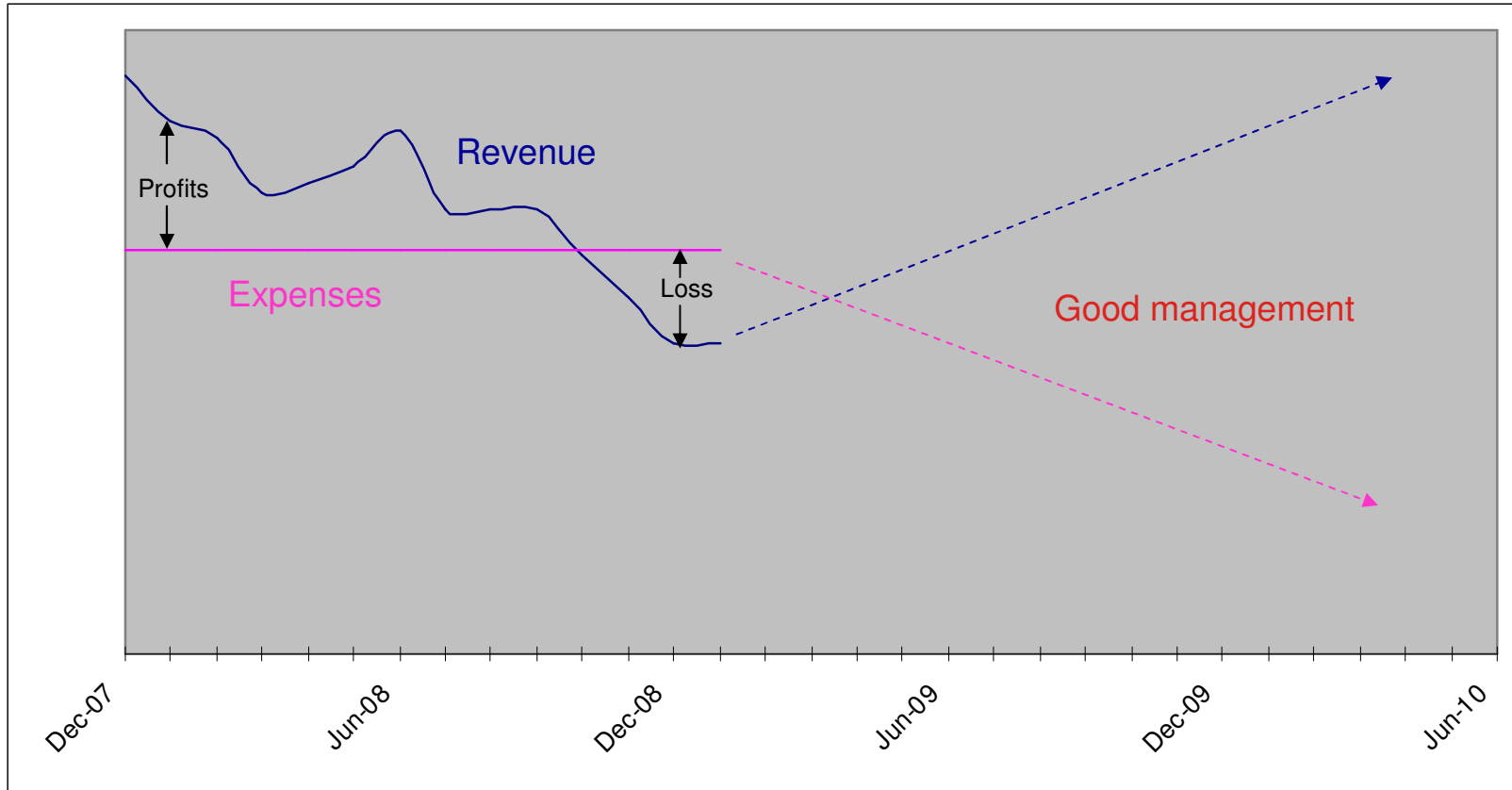
The picture over the last 12 months for many practices



The picture over the last 12 months for many practices



The picture over the last 12 months for many practices



Winners & Losers in the current market

WINNERS

- Diversified income
- Risk based businesses
- Fee based
- Low gearing
- Effective management
- Strong licensee support
- Well planned businesses

LOSERS

- Investment focused
- Commission / FUM reliant
- Reliance on new business
- Heavy debt burden
- Lack of business strategy
- Poor management
- Lack of knowledge of business drivers
- Lack of planning



What should business owners do now to future proof their cash flows ?



- Business Planning
 - Assess current profitability of the business
 - Conduct an analysis of current cashflows
 - Understand current debt position and associated obligations
 - Assess current balance sheet position
 - Review strategic plans
 - Review business processes
 - Review personal expenditure / drawings from the business
 - Agree on an action plan



How many owners actually do business planning



- Only 21% of owners complete an annual business plan each year
- However 92% of owners who write a business plan check back on it regularly

- Reasons for not writing a business plan:-
 - Business too small to warrant writing one (32%)
 - Lack of time (21%)
 - Don't need one (15%)
 - Not sure how to do one (8%)
 - Never stuck to past business plans (6%)



Assess current profitability



- Review up to date financial reports to understand current net profitability.
- Note that year ended June 2008 figures are NOT recent enough and do not accurately reflect recent revenue declines in most businesses
- You need access to information for the December 2008 quarter as it will be more representative of income current levels



Conduct an analysis of current cash flows



- Conduct an up to date Cash flow analysis for the next 12 months.
- Analysis needs to reflect current revenue levels and expenditure commitments making sure you include the following:
 - Tax payments
 - Capital commitments
 - Personal “drawings”
 - Asset renewals
 - Legal claims or client complaint settlements
 - Any other anticipated inflows or outflows.



Understand the current debt position & associated obligations



- Need to understand obligations to debt providers in relation to loan covenants and ensure they are being met
- Need to review capability to meet principal repayment schedule
- Need to reconfirm with Financier availability of future debt facility draw downs that may be scheduled
- A key to working with financiers in the current environment is to provide them with early identification of any potential cash flow issues. A financier is much more likely to work with a business and agree to restructure loan repayments, or move to interest only terms and so on, if you engage them early



Assess the current Balance Sheet position



- Need to understand the balance sheet strength of the business and level of reserves available to meet any operating deficit
- Ensure any outstanding debtors are pursued to help maintain cash flow
- Ensure you are meeting your terms of credit from suppliers



Review Strategic Plans



- Need to review strategic plans that involve any investment by the business to ensure they are still valid and achievable
- Review budgets and cash flow analysis of any intended acquisition or venture in light of current circumstances
- Also review longer term budgets and cash flow projections for the business



Review Business Processes



- Address segmentation of your client base
- Readdress / realign the service offering
- Review client contact , staff / client ratio
- Is increased client contact required at this time
- Review / assess previous business planning
- Ensure clarity around the decision make processes



Review personal expenditure / drawings from the business



- Review level of total drawings from business to ensure business can afford it
- Place on hold any non essential expenditure for a period
- Restructure any private debt to convert to tax deductible
- Ensure funds are available to meet all tax liabilities



Agree on an action plan



- If your review raises concern then an action plan should be implemented to address any issues. The following steps should act as a guide:
 - Ensure information is accurate and up to date
 - Investigate what support your licensee can provide you
 - Engage external support eg. Accountants, and/or a specialist business consultants to the industry
 - Engage your financier if the business has debt – if your current financier is unsupportive you may need to consider speaking with a specialist financier to the industry.



Case study



	2007	2008
Income		
Professional fees	\$400,753	\$804,326
Expenses		
Operating Expenses	\$376,708	\$498,682
Net Operating Profit before tax	\$24,045	\$305,644
Income Tax	\$7,214	\$91,693
Net Operating Profit after tax	\$16,832	\$213,951



Case study



	2007	2008	Annualised Dec 2008 qtr
Income			
Professional fees	\$400,753	\$804,326	\$563,028
Expenses			
Operating Expenses	\$376,708	\$498,682	\$501,095
Net Operating Profit before tax	\$24,045	\$305,644	\$61,933
Income Tax	\$7,214	\$91,693	\$18,580
Net Operating Profit after tax	\$16,832	\$213,951	\$43,353



Case study



	2007	2008	Annualised Dec 2008 qtr	Budget 2009	Budget 2010
Income					
Professional fees	\$400,753	\$804,326	\$563,028	\$643,461	\$789,044
Expenses					
Operating Expenses	\$376,708	\$498,682	\$501,095	\$413,906	\$423,880
Net Operating Profit before tax	\$24,045	\$305,644	\$61,933	\$229,555	\$365,164
Income Tax	\$7,214	\$91,693	\$18,580	\$68,866	\$109,549
Net Operating Profit after tax	\$16,832	\$213,951	\$43,353	\$160,688	\$255,615



Key outcomes / actions



- The business made a decision to refocus some of their resources towards new and/or varied revenue activities
- Segmentation of book and resetting of business strategies
- Owners had undertaken a full review of all key business expenses with savings implemented around staff, rent and IT (immediate savings \$80k pa)
- Remaining staff cross trained to cover new activities
- Non core activities outsourced
- Decision made to transition to a fee to service pricing model
- Action plan implemented for regular review of business plan (weekly at first)
- Significant licensee support provided in initial review and ongoing monitoring
- Debt restructure approved by bank / including a small increase in funding to cover cash flow issues



In conclusion



The current market is creating challenges for almost all financial planning practices and the better business operators have already started taking action to strengthen their cash flows and ensure sustainability of their business

We encourage all financial planning business owners to conduct a Financial Health Check of their business and where required **ACT QUICKLY** to address any areas of weakness so as to enable the business to maximise opportunities into the future

