



Business Optimisation Series

Event 1 - Financial Literacy

February 2023



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Business Optimisation Series

Event	Date
1. Financial literacy	23 February 2023
2. Deal readiness	15 March 2023
3. Tax structuring	TBC
4. Strategic planning	TBC
5. Succession planning	TBC

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Reading your financial statements

- Profit & loss
- Balance sheet
- Cash vs accruals accounting
- Budgeting vs cash flow forecasting

Presented by: Jade Dixon (PwC)

03



Financial techniques for success

Presented by: Chris Chaing (PwC)

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Financial key performance indicators

- How to measure yourself against competitors

Presented by: Tamara Brown (PwC)

04



Common mistakes

Presented by: Tamara Brown & Jade Dixon (PwC)

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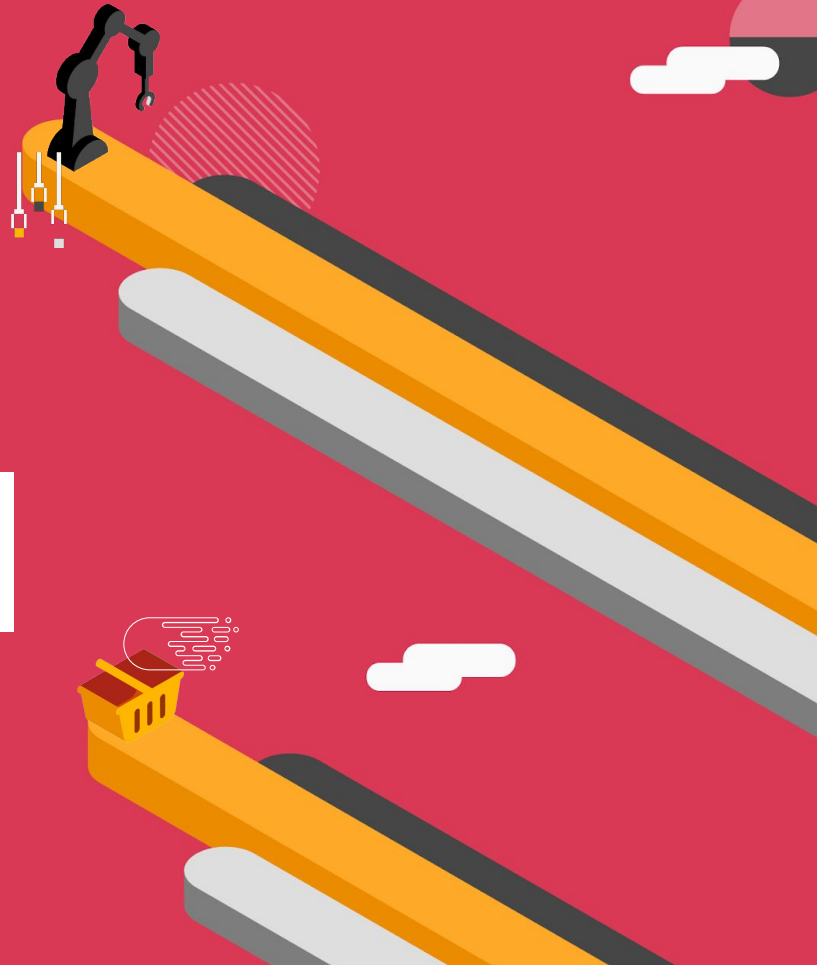
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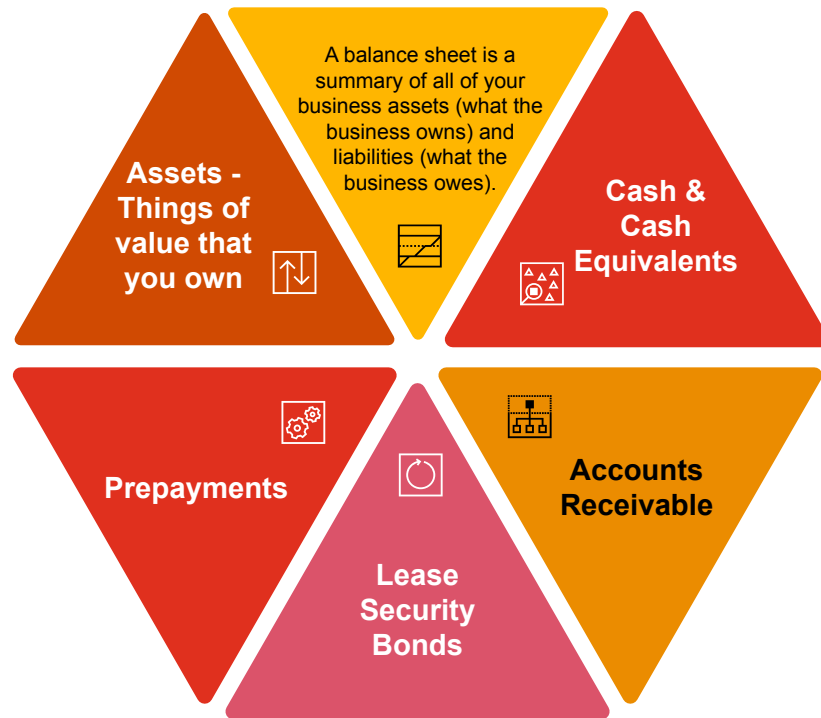
01

Reading your financial statements



01 - Reading your financial statements

BALANCE SHEET	Aug 2021
ASSETS	
Cash & Equivalents	
Bank Account - Big 4 Bank	\$433,777
Pay&Go Mastercard	\$694
Cash On Hand	\$100
Total Cash & Equivalents	\$434,572
Accounts Receivable	
Accounts Receivable	\$59,343
Other Current Assets	
Lease Security Bond	\$220,242
Prepayments	\$44,474
Total Other Current Assets	\$264,716
Total Current Assets	\$758,631



01 - Reading your financial statements

Fixed Assets

Classroom Equipment	\$102,563
Centre Setup and Fitout	\$90,000
Kitchen Equipment	\$11,681
Leasehold Improvements	\$7,605
Outdoor Equipment	\$44,156
Computer and Office Equipment	\$10,637
Staff Equipment	\$3,875
Total Fixed Assets	\$270,517
Investments or Other Non-Current Assets	
Borrowing Costs	\$4,405
Loan - Number 5	\$78,878
Total Investments or Other Non-Current Assets	\$83,283
Total Non-Current Assets	\$353,800
Total Assets	\$1,112,431



01 - Reading your financial statements

LIABILITIES

Accounts Payable

Accounts Payable	\$177,619
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Other Current Liabilities

Accruals	\$24,018
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Tax Liabilities	-\$15,707
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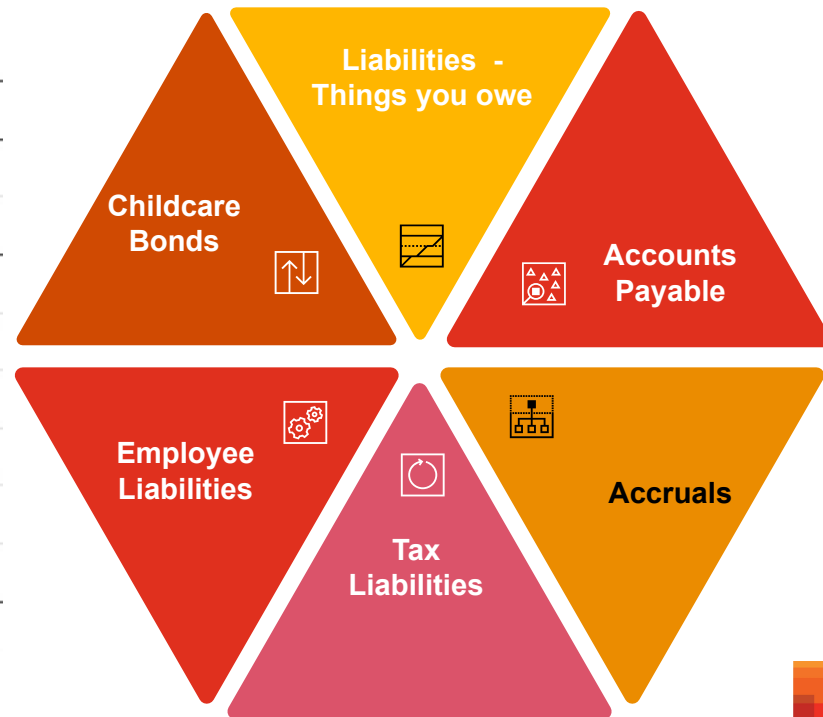
Employee Liabilities	\$120,082
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Other	\$0
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Childcare Bonds	\$120,247
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Total Other Current Liabilities	\$248,639
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Total Current Liabilities	\$426,259
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01 - Reading your financial statements

Long Term Debt

Provision for Long Service Leave (NCL)	\$1,680
Total Non-Current Liabilities	\$1,680
Total Liabilities	\$427,939
EQUITY	
Retained Earnings	
Retained Earnings	\$536,560
Current Earnings	
Current Year Earnings	\$147,832
Other Equity	
Shareholder Capital	\$100
Total Equity	\$684,492
Total Liabilities & Equity	\$1,112,431

Non Current Liabilities

Money you are likely to pay in MORE than 12 months



Equity

Equity is the value that would be returned to shareholders if all assets were sold (and converted into cash), and all liabilities were paid



Current Year Earnings

Net profit or loss of the business from the current financial year (the financial year is normally the 1 July to 30 June)



Retained Earnings

This is the accumulated net profit or loss of the business over time (from the previous financial years)

01 - Reading your financial statements

PROFIT & LOSS	Aug 2021
Revenue	
Childcare Revenue	\$285,457
Other Childcare Revenue	\$44,238
Total Revenue	\$329,695
Cost of Sales	
Childcare Operations	\$12,978
Merchant Costs	\$968
Total Cost of Sales	\$13,946
Gross Profit Before Depreciation	\$315,749



Childcare revenue is what you charge for each enrollment (irrespective how you get paid - CCS, GAP etc)



Other child care revenue is money you receive (not from enrolments) eg



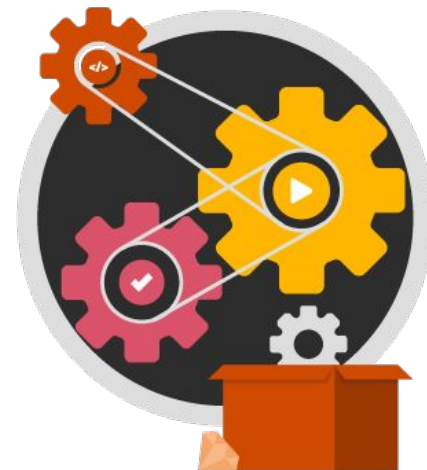
DESE or State government for providing services (eg Kindergarten initiative, Early Childhood Education Initiatives etc)



01 - Reading your financial statements

Expenses

Marketing	\$337
Administration	\$20,513
Property Costs	\$38,580
Employee Costs	\$168,456
Repairs and Maintenance	\$3,751
IT & Communications	\$1,701
Total Expenses	\$233,338
Operating Profit Before Depn & Amort.	\$82,411



01 - Reading your financial statements

Other Income

COVID19 Kindergarten Support	\$1,500
Wage Subsidy - Supporting Apprentices and Trainees	\$9,416
EBITDA	\$93,327
Total Depreciation & Amortisation	\$2,749
Earnings Before Interest & Tax	\$90,578
Interest Expenses	
Interest Expense	\$172
Earnings Before Tax	\$90,406
Net Income	\$90,406



EBITDA
(Earnings before
interest, tax,
depreciation and
amortisation)

Revenue less Cost of
goods sold less
expenses plus other
income



Net Income

EBITDA less
depreciation,
amortisation, interest
and tax

01 - Reading your financial statements



Cash Accounting

Revenue is reported on the income statement only when cash is received. Expenses are only recorded when cash is paid out.

Accrual Accounting

Revenue is reported when a product or service is delivered to a customer with the expectation that money will be paid in the future. Expenses of goods and services are recorded despite no cash being paid out yet for those expenses.

01 - Budgeting

What is a budget

- A budget is an outline of business revenue and expenditure for a certain period.
- Early childhood education businesses rely heavily on a well thought out budget to achieve their desired growth trajectory.
- A clear budget will show the business revenue sources and expenses, both fixed and variable.
- A budget is a simple but effective tool that will show at a glance whether a business is operating within its means.

Key Purpose

- Keeps business financial goals on track.
- Helps a business assess its capacity to take on debt.
- Prepare a business for emergencies and unforeseen events.
- A budget helps a business keep spending under control.



01 - Cash flow forecasting

What is a cash flow forecasting?

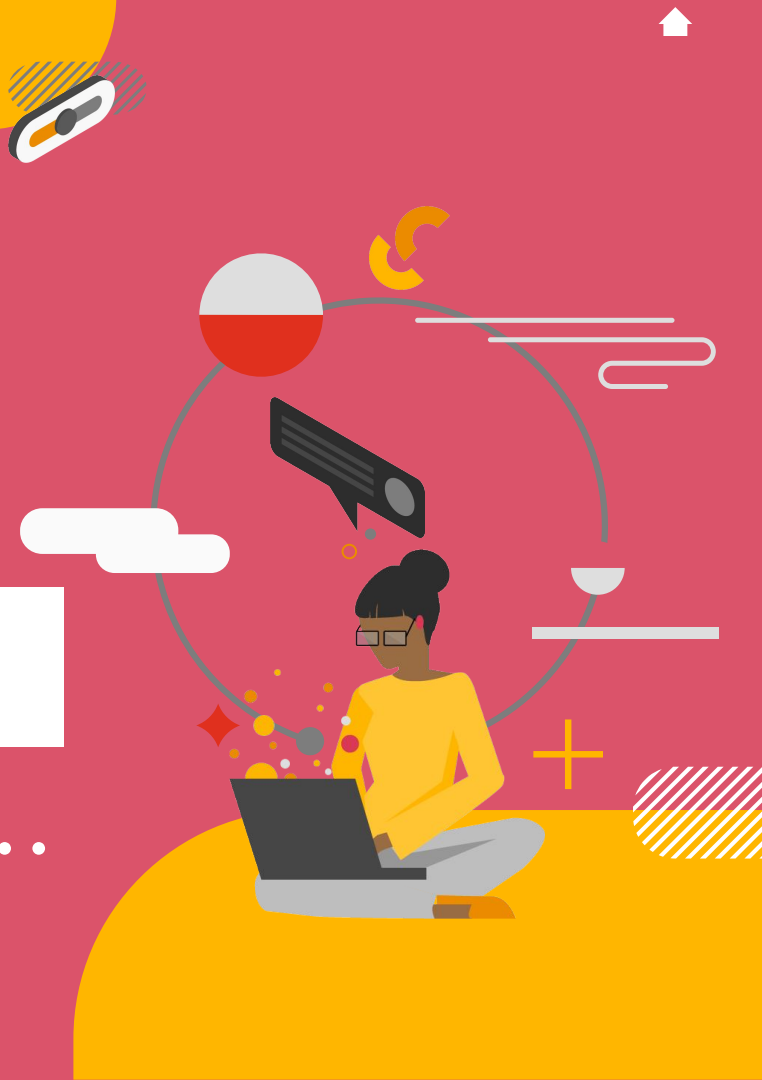
- Cash flow forecasting involves estimating your future sales and expenses.
- Being able to forecast your cash flow is essential as it will tell you if you'll have enough cash to run the business, pay your bills and your staff.
- It will help you to understand when you're going to run out of money so you can prepare ahead of time.
- Perhaps it will show that you need to cut overheads, find new investment or spend time increasing occupancy.
- On the flip side, you might be doing well, and you're considering expanding into new markets, investing in new centre equipment, taking on bigger premises, or recruiting new staff.
- Having accurate cash flow projections will help you see if you can afford to take the plunge.

Take it to the next level and consider preparing a 3-way forecast.

02

Financial key performance indicators

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02 - Financial key performance indicators

What is a financial key performance indicator (KPI)?

Financial KPIs are metrics which organisations use to track, measure, and analyse the financial health of their business.

What is benchmarking?

Benchmarking is the process of comparing business practices and performance metrics to industry best practice.



02 - Financial key performance indicators

1



OCCUPANCY

How many spaces are being utilised?

2



EBIT / REVENUE

Earnings before interest and tax in comparison to total revenue

3



WAGES / REVENUE

Total salary and wage cost in comparison to revenue

4



RENT / REVENUE

Total rent costs in comparison to total revenue

02 - Financial key performance indicators

1



OCCUPANCY

Benchmark = 80%

Enrolments

—————
Total number of approved places

2



EBIT / REVENUE

Benchmark = 6% -
15%

Net profit (before interest and tax)

—————
Total revenue

02 - Financial key performance indicators

3



WAGES / REVENUE

Benchmark = 59%

Total salary and wages

—————
Total revenue

4



RENT / REVENUE

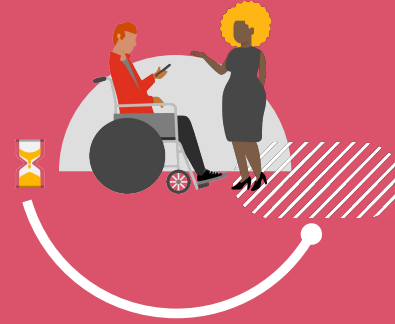
Benchmark = 9.2%
-12%

Total rent costs

—————
Total revenue

03

Financial techniques for success



03 - Financial techniques for success

Techniques for success



Strategic plan & goals

Determining your strategic plan and setting your goals which guides your day-to-day actions in your business.



Updated financial information

Having updated, accurate and regular financial information to help guide you make decisions in your business.



Forecasting your cash flow

Forecasting and planning your cashflow an appropriate period (6 weeks - 6+ months) for known issues (lockdown easing, school holidays, public holidays etc).



Optimum occupancy

Striving towards the optimal occupancy (at least 80%) to ensure the viability of your centre.



Effective cost controls

Being aware of the recurring costs in your business and planning for the non-recurring costs.



Complying with government regulations

The childcare and early education sector is heavily regulated, thus complying with government regulations is paramount.



Accessing government grants

The sector is strongly supported by the government, thus timely financial information and up to date lodgements with the government will ensure less delays in accessing critical gov't grants.

03 - Financial techniques for success

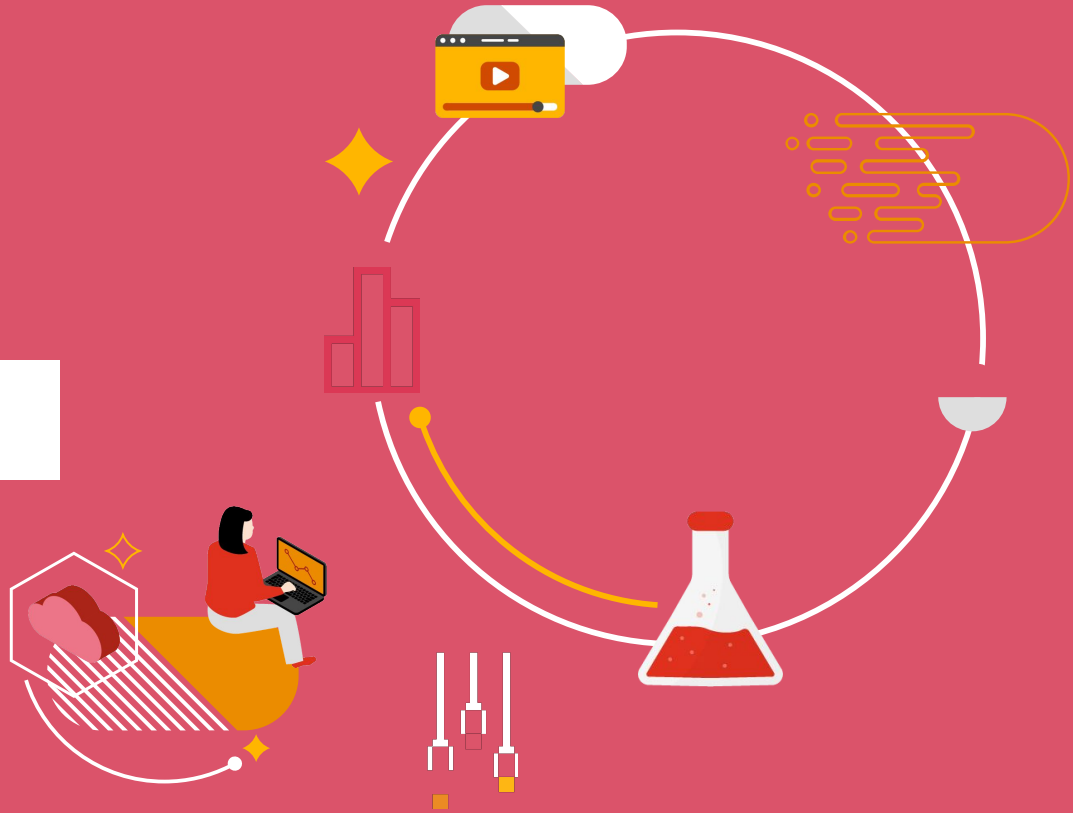
	RESULT			TREND	Importance
A CHILDCARE KPIs	Aug 2022	Jul 2022		vs JUL 2022	
Occupancy (Total no. of places)	3,550	2,840	▲	710	Low
Actual Occupancy	2,670	2,221	▲	449	High
Occupancy %	75%	78%	▼	-3%	Critical
Revenue per Place (total number of places)	80	106	▼	-25	Medium
Revenue per actual places	107	135	▼	-28	High
Rent per Child (number of places in centre)*	10	13	▼	-3	Medium
Payroll Costs to Revenue%*	50%	53%	▼	-4%	Critical
Employee Costs to Revenue%*	51%	55%	▼	-4%	High
Rent to Revenue %*	11%	11%	▼	0%	High
EBIT to Revenue %	27%	18%	▲	9%	High
EBITDA	\$93,327	\$60,197	▲	55%	Low
B PROFITABILITY					
Total Revenue	\$329,695	\$315,531	▲	5%	Critical
Profitability Ratio	27.47%	18.25%	▲	9.22%	Critical
C CASH FLOW					
Cash on Hand	\$434,572	\$405,835	▲	7%	Medium
D GROWTH					
Revenue Growth	4.49%	-6.11%	▲	10.60%	Critical
EBIT Growth	57.26%	102.54%	▼	-45.29%	High



04



Common mistakes



04 - Common mistakes

1

Lack of timely financial information (processing not kept up to date)



2

Poor quality of financial information



3

Confusing the concept of revenue and profit and not understanding what drives profit



4

Not reviewing current financial information in a timely manner and therefore making decisions based on historical and outdated information



5

No access to benchmarking information so don't really understand what to strive towards or what is industry norm is



6

Over-reliance of the use of their accountants to advise their financial state. Accountants, not always, but most who are used, actually do not understand the childcare system, especially Child Care Subsidy (CCS), Additional Child Care Subsidy (ACCS), Inclusion Support, Waiver of Gap Fees, clawback of CCS/ACCS



05 - Q&A



PwC - Your contacts



Tamara is a Partner in PwC's Private Clients practice with 20 years experience working with privately owned groups to help them grow and realise value.

In recent years, Tamara has led the firm's childcare practice - presenting at many key child care seminars with respect to strategy, growth and benchmarking as well personally acting for a number of childcare groups across Australia.

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Chris is a Director in PwC's Private Clients practice with over 11 years experience in providing business and tax advisory services to privately owned businesses, their owners and their family. This includes business structuring, tax due diligence, tax consulting, business advisory, tax controversy and tax compliance.

Chris Chaing

Director - Private Clients

Chris has experience working with large multi-centre child care groups, through to single centre Approved Providers, assisting with their structuring, tax planning and tax compliance.

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Jade has over 15 years experience from time in industry and as a Partner in PwC Private Clients. During her time in industry, Jade was CFO for a private equity backed group with investments in both property and hospitality assets. Jade now leads the Australian Firm's Outsourced CFO team bringing extensive commercial experience and technical knowledge to the team. Jade currently provides outsourced accounting and taxation services to a number of clients including childcare and not-for-profits.

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