Gross Sales to Net Sales

- Gross Sales
  - Follow revenue recognition rules – record sale when product ships to customer
- Returns & Allowances – product returns, cash discounts, misc. customer deductions, mis-shipments
- Net Sales = Gross Sales less Sales Returns & Allowances
- Net Sales after Promotions deducts promotional expenses from Net Sales

Planning / Forecasting Sales

- Know the seasonality and annual growth % of your category
- Account for production spikes prior to distributor promotion buy-in periods
- Large gains in distribution – entering a new region of Whole Foods, Kroger, Target, Costco
- Be conservative in sales estimates & over deliver sales
- Accurate forecasting for your co-packer

Promotions/Trade Spend Considerations

Types of Trade Spend:

- Off invoice promotions
- Everyday Low Cost (EDLC)
- Scan backs
- Coupons
- Slotting
- Merchandising Allowances
- Ads
- Merchandising equipment
- MISC
- Brokerage

Planning for Trade Spend:

- Amount of promotion
- Additional charges for Off Invoice (OI) versus scan
- Frequency of promotions
- Lift assumptions
- Free fill assumptions

Cost of Goods Manufactured

3 Key Components

a) Ingredients (or raw materials)
- Landed cost from supplier
- Commodities risk
- Volume discounts usually not significant until receiving full truckloads

b) Packaging
- Large printing runs – watch out for inventory carrying cost
- Plate charges for new package design

c) Labor
- Include labor to make and package the product
- Include overtime costs, payroll taxes, benefits expenses
- Consider throughput of equipment when calculating labor hours

Margins

<u>Variable Contribution Margin</u>

- Shows the profits available to cover fixed expenses of the business
- Can be used to calculate how much in incremental sales you will need to cover additional expenses

<u>Gross Profit</u>

- After Plant Overhead expenses – rent, plant management payroll, taxes & benefits, utilities, sanitation, uniforms, repairs & maintenance
- Want sustainable business out of the gate

Pricing Considerations

Need to take supply chain margins into consideration when pricing products

Ingredients/Packaging/Labor	$0.99
Co-packer Margin	35%
Co-packer Price to PPP	$1.52
PPP Margin	40%
PPP Wholesale Price	$2.54
Distributor Margin	15%
Distributor Price	$2.99
Retailer Margin	40%
Retail Price	$4.99

Transportation/Storage/Logistics Planning Considerations

- Order minimums impact on freight/bad debt
- Ambient versus cold storage/freight handling costs
- Shelf Life considerations
- Warehousing costs
- In/Intra Freight
- Freight Pickup Allowances

SG&A – Selling & General & Administrative

- Sales & Marketing
  - 3rd Party Engagements
  - Broker Commissions
  - Trade Shows /Conferences
  - Other Events

- Salaries and Comp
  - – Payroll
  - – Payroll Taxes
  - – Benefits
  - – Bonuses
- Insurance
- Taxes/Licenses/Fees
- Professional Fees
  - – Legal
  - – Other Consulting – (Tech, HR, Tax)

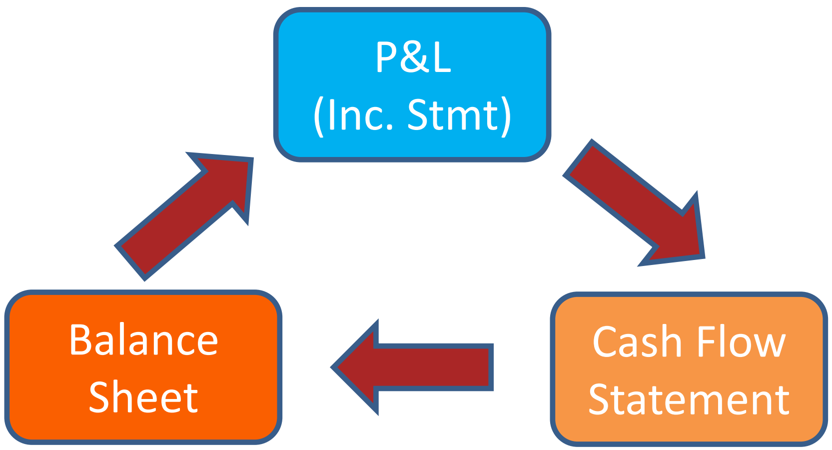
EBITDA

Earnings before…

- Interest – payments of interest on outstanding debt
- Taxes – income tax, use tax, etc…
- Depreciation – fixed assets
- Amortization – intangible assets

- ITDA - Expenses outside the realm of regular operations and not a function of profitability.
- Non-cash adjustments to P&L
- Investors use Revenue and EBITDA as benchmarks for valuation

Financial Statements – Relationships



- Understanding all three statements is extremely important.
- Each provides a view into a different aspect of a business's financial health
- Early stage businesses need to pay close attention to cash burn

Example of relationship importance:
On January 1 you make 1 of 4 payments for your annual commercial liability insurance premium for $15k.

Financial Management Watch outs

1. Revenue/Pricing – Use adequate retailer and distributor margins, appropriate category retails.
2. Cost of Sales – Don’t try to “save your way” to a future healthy product margin, launch your product with adequate margin. Take timely pricing increases in line with industry/commodity increases. Have contracts with stated tolling for all manufactures.
3. Freight/Logistics – Plan for realistic minimums and cost until the business is to scale, longer than you think.
4. Trade Spend – Research your category and get as much free data to make educated trade assumptions/plans. Watch out for OI structures that can spike volume and put pressures on working capital. Grow revenue profitably.

Financial Management Watch outs

5. SGA – Make considerations for all areas and don't put off important legal expenses.
6. Cash/Liquidity – Profitable businesses have a better time of getting debt financing.
7. AR- Have timely/correct invoicing processes to accelerate cash collection cycle, be mindful of trade spend chargebacks.
8. Inventory – This is cash so make sure you have enough, but not to much. Be mindful of incremental low volume innovations/shelf life. Try to not manage raw materials if possible.