**Treasurer’s Report – Members Committee Meeting 21 January 2021**

**January Trading Update**

Trading throughout January appears to be much improved. There are a number of strong headwinds which have combined to indicate January is expected to be the best month of trading in FY21, including:

1. Restricted purchasing – staff had been given a mandate to run down existing stock throughout January, and were provided with a strict purchasing budget. This has seen expected cost of goods for January 2021 decrease by 36%. I must note here that much of the existing stock on hand was run down significantly and some of the shelves and fridges looked rather bare this week.
2. Staffing – with the departure of the store manager, Allie, and her 2IC, Janet, there was a natural attrition from a human resourcing perspective. Ran and Carina have taken over the managerial duties seem to be keeping things on track. There is expected to be a 15% reduction in wages and salaries in January off the back of this.
3. Subscription fees and donations – member subscription fees and donations continue to roll in since the 11 January email which contained AH bank details. At 19 January, AH had collected $1,655 in subscription fees, and $5,031 in donations.

In the summary below, I have provided a summary of the expected trading results for January 2021 (entire month) vs January 2020. In order to calculate the forward-looking P&L for this month, I have taken the actual trading figures up to and including 19 January 2021, and combined them with the forecasted trading figures for the rest of the month. The general underlying assumptions are as follows:

* Daily shop sales estimated to be $3,000 per day (probably conservative)
* Member fees and donations estimated to be $1,000 and $2,000 respectively (conservative)
* Purchases have been provided by Carina, she has already spent $22,000 this month, with another $18,000 to spend
* I have estimated the accrued expenses for Advertising, Bookkeeping, EFTPOS and Licencing
* The staffing roster will stay largely the same with “bare bones” staff coverage, actual cost of $475.29 per day of trading x (21 pay days outstanding in the month + 2 extra days to cover one public holiday and two Sundays)

A further detailed P&L for January 2021 in excel will be provided concurrently with this report.



**Financial Viability of the Co-op**

*Intro*

The Members Council has asked that undertake a detailed analysis of the ongoing financial viability of AH as it is presently constituted. In order to tackle this, I have prepared a budget / P&L forecast for the remainder of this financial year (i.e. next six months). This gives a good indication of where AH is headed over the next 6 months and shows the expected profit. While profit is not a straightforward proxy for cash generated, it is a good indicator of whether AH is financially viable. For the purposes of this analysis, I have “normalised” net profit to remove the ATO cash flow boost, which is an abnormal item. It should not be considered as part of net profit in normal circumstances and cannot be relied upon in the future.

*FY21 P&L Forecast*

In the summary below, I have shown the actual P&L for H1 2021 (July to December) side-by-side with the forecast P&L for H2 2021 (January to June).



Forecasting P&L is a bit of a science, and there is always inherent risk with forward-looking projections. In preparing the above analysis, I have made several key assumptions related to the H2 P&L, including:

1. Shop trading has been forecast using the actual + forecast P&L for January (see above January trading analysis), and then reverts back to monthly sales of $85,028 (average of H1 2021)
2. Other income includes membership fees and donations. I have conservatively estimated that February will be 50% of the estimated fees and donations in January, and zero for the remaining months (note this is very conservative, but I’m trying to ensure that AH can be viable without the very welcome donations)
3. Purchases in January are $40,033, following which revert back to 65% of revenue (i.e. 35% GM assumption)
4. Admin expenses are largely the same as H1, although I have removed one-off expenses such as accounting fees which are already paid in FY21
5. Employee expenses have been capped at $20,000 each month based on the store running rather smoothly with less staff in January
6. Rent and facility expenses are largely the same as H1, despite the request for rent relief, these expenses are still expected to accrue and be paid at a future date
7. Communication expenses, and insurance expenses are largely the same as H1

*Key Findings*

Given the above analysis, it would appear AH is financially viable in its current form, subject to the following:

* The store trading continues to hit a monthly revenue target of over $85,000
* Purchases are kept to a strict budget ($ TBA) and inventory is managed appropriately
* Monthly employee expenses do not exceed $20,000 per month on average (timing issues may mean some months may be higher and some months may be lower)
* The landlord is amenable to have the lease keep rolling as a month-to-month prospect – if the trading of the store turns around, then AH may be in a position to sign a new lease depending on AH v2.0 outcomes
* A 13-week rolling cash flow forecast is used at a store level (by Ran and Carina) to manage working capital (I should have this completed by end of week or early next week)
* A detailed review of products and margin is undertaken, unprofitable products discontinued where possible, higher margin products introduced
* There is a renewed focus at the store level in relation to profitability and some commercial acumen needs to be learned (i.e. the store should be run more like a business) – at the end of the day AH is a not for profit, so any profit is put back into the store for the benefit of members

There are a lot of variables listed above which could sway in AH’s favour, or not sway in AH’s favour. However, they key takeaway from the analysis is that AH is currently financially viable, however, this may be a week-to-week proposition and needs to be managed as such. The existing staff, mainly Ran and Carina will need to take ownership of ensuring the store runs smoothly and profitably. My hope is that a strong January profit will “fill the coffers” to enable the store some breathing room. But I must caution that positive January trading is only the start of the AH turnaround story, and there is a lot of work needed to maintain the turnaround.