

How to Prepare a Restaurant Business Plan

**** Financial Section ****

Table of Contents

Introduction.....	1
Projected Sources & Uses of Cash.....	2
Capital Budget	3
Land & Building	3
Leasehold Improvements	3
Bar/Kitchen Equipment	3
Bar/Dining Room Furniture.....	3
Professional Services	3
Organizational & Development	4
Interior Finishes & Equipment.....	4
Exterior Finishes & Equipment	4
Pre-Opening Expenses	4
Working Capital & Contingency	4
Sales Projection.....	6
Hourly Labor Cost Projection.....	9
Assumptions to the Financial Projections.....	11
Cost of Sales	11
Management Salaries	11
Employee Benefits	12
Direct Operating Expenses	12
Music & Entertainment.....	13
Marketing.....	13
Utilities.....	13
General & Administrative.....	14
Repairs & Maintenance.....	14
Occupancy Costs.....	15
Depreciation & Amortization	15
Annual Operating Projection - Detail	16
Annual Operating Projection - Summary	18
5 Year Operating & Investment Projections.....	19
Investment Assumptions.....	19
Projected Investment Returns	20
Break-Even	22
Break-Even Worksheet	22
Break-Even P&L Summary	24

Introduction

For potential investors and lenders, the Financials are often viewed as the heart of the business plan and this section will get a lot of attention and even scrutiny from potential lender and investors. This is where they have the opportunity to evaluate the financial viability of the venture and – all important – gain a sense of the risk and return on investment potential the venture is likely to offer.

Some of the main concerns or issues any investor will want to learn from the Financials section include:

- How much startup capital will the venture require and where it will come from.
- How profitable is the restaurant likely to be.
- When can the investor(s) expect to get their investment back.
- What kind of ROI is this investment likely to generate.

Even though you may have years of hospitality experience and are an expert at operating a restaurant, lenders and investors want to know you understand the financial side of the business as well. Showing knowledge of the numbers lets them know you see the big picture and are capable of not only running a restaurant but you also possess the skills to build a successful business as well.

Even though you may not have a financial background, you'll need to understand the numbers on the various schedules and statements that make up the Financial Projections section and be prepared to answer questions about the assumptions used to create them. Don't be concerned or intimidated. As you'll soon see, the Financials are basically just common sense and we've designed this section to be very straightforward and easy to understand. You, as well as those who read your business plan, should quickly gain a clear picture of the financial aspects of your venture if you follow this format.

The schedules and statements included in the financials section are:

- Projected Sources & Uses of Cash
- Capital Budget
- Sales Projection Worksheet
- Hourly Labor Projection Worksheet
- Annual Operating Projection – Detail
- Annual Operating Projection - Summary
- 5 Year Operating Projections
- Break-Even P&L Summary

Access the appropriate Financial Model Worksheet on your CD or download at RestaurantOwner.com:

[Restaurant Financial Model - Tableservice](#)

[Restaurant Financial Model - Quickservice](#)

[Restaurant Financial Model - Pizzeria](#)

Projected Sources & Uses of Cash

The Projected Sources & Uses of Cash shows the total amount of funding required to finance the startup and opening of the restaurant, where the funds are expected to come from and how these funds will be spent.

This numbers on this worksheet are generated automatically from information entered on other supporting worksheets.

Blue Water LLC Projected Sources & Uses of Cash Development & Startup Period

SOURCES OF CASH:

Equity Contributions	\$ 400,000
Loan Financing	677,675

TOTAL SOURCES OF CASH	\$ 1,077,675
------------------------------	---------------------

USES OF CASH:

Land & Building	0
Leasehold Improvements	400,000
Bar / Kitchen Equipment	175,000
Bar / Dining Room Furniture	75,000
Professional Services	19,500
Organizational & Development	34,475
Interior Finishes & Equipment	66,500
Exterior Finishes & Equipment	48,500
Pre-Opening Expenses	108,700
Working Capital & Contingency	150,000

TOTAL USES OF CASH	\$ 1,077,675
---------------------------	---------------------

Capital Budget

The Capital Budget is a detailed schedule showing all the various expenditures, construction, startup and pre-opening costs required to get the restaurant open for business. Adequately identifying and estimating the costs of the project at this stage is absolutely crucial. Many restaurant experts claim the number one reason for restaurant failure is undercapitalization, i.e. running out of startup capital before operating activities have a chance to generate an adequate cash flow to sustain the business. Don't place your restaurant (and future) in jeopardy by not having enough capital to complete your project according to plan or start out in a big financial hole.

Here are the major categories of the Capital Budget (an example of a completed Capital Budget is included on the next page).

Land & Building

If the owner/operating entity is planning on owning the land and building (versus leasing a facility), the actual or estimated cost of the land and building should be included here. Also include any related acquisition costs such as closing costs, sales commissions, finder's fees, etc.

Leasehold Improvements

In a leased facility, enter the estimated cost of constructing the leasehold improvements less any landlord contributions. Leasehold improvements will include the cost of demolition (if any), construction of walls, ceilings, electrical, plumbing, HVAC, fixtures, flooring and any other hard costs associated with the interior and exterior structural and mechanical components of the building. Also enter any landlord allowance or contribution for the construction of the leasehold improvements as this will reduce the eventual cost of the leasehold improvements.

Bar/Kitchen Equipment

Based on your menu, prepare a detailed list of the bar and kitchen equipment you'll need. Obtain actual bids and be sure to consider the cost of delivery, installation and setup. If possible, reference a detail of the bar and kitchen equipment and place it in the Appendix of our business plan.

Bar/Dining Room Furniture

If possible, reference a detail of the Bar/Dining Room Furniture and place it in the Appendix. Obtain actual bids and be sure to consider the cost of delivery, installation and setup.

Professional Services

This section includes cost such as architectural, engineering, design, legal, accounting and other professionals and consultants whose services will be used. Obtain cost estimates from these professions based on the scope of services you plan on having them perform.

Organizational & Development

A variety of costs are placed in this category including deposits on utilities, sales tax and lease, permits & licenses, menus and other similar costs. Obtain cost estimates from suppliers or other authoritative sources.

Interior Finishes & Equipment

This section includes interior items such as kitchen smallwares, artwork, décor, sound system, POS and other similar items. Obtain cost estimates from suppliers or other authoritative sources.

Exterior Finishes & Equipment

Items such as landscaping, exterior sign, parking lot and other similar costs are included in this category. Obtain cost estimates from suppliers or other authoritative sources.

Pre-Opening Expenses

Pre-opening expenses are standard restaurant operating expenses that are incurred prior to opening. Included are costs such as food, beverage and supplies inventory needed for menu development, training and opening as well as utilities, interest expense, uniforms, marketing and payroll costs of management and staff.

It's common to hire the chef or other management personnel from 1 to 2 months before opening, depending on the need for their involvement in the development and startup activities. Hourly staff normally begins training 1 to 2 weeks before opening.

Working Capital & Contingency

Very few restaurants are profitable during the first few months of operation. Some restaurants that are quite successful today took a year or more to reach profitability. Some provision should be made in the Capital Budget for working capital to cover possible operating deficits after opening. It's quite rare to open up a new independent restaurant and start out making a profit in the first month of operation.

It is also important to have a contingency built into the Capital Budget for change orders and cost overruns. There will always be surprises and unplanned costs when opening a restaurant. Cover yourself by having a contingency equal to at least 5% to 10% of the total project cost.

(See sample Capital Budget on next page).

Blue Water LLC

Capital Budget

	TOTAL COST	Detail
LAND & BUILDING	0	
Land		
Building - Construction / Contractor Fees		
LEASEHOLD IMPROVEMENTS	200,000	
Construction Contract		300,000
Landlord Contribution		(100,000)
BAR / KITCHEN EQUIPMENT	125,000	
BAR / DINING ROOM FURNITURE	32,500	
PROFESSIONAL SERVICES	19,500	
Architect & Engineering		7,500
Legal (lease & incorporation)		5,000
Project Consultant		2,500
Accounting & Tax		2,000
Name, Logo & Graphic Design		2,500
ORGANIZATIONAL & DEVELOPMENT	34,475	
Deposits (utilities, sales tax, etc.)		3,000
Insurance Binder (property, casualty, liability)		4,225
Workers Comp. Binder		1,500
Liquor License		5,500
Building Permits		2,500
Other Licenses & Permits		1,500
Utility Deposits (gas, electric, water)		3,000
Change, Operating Banks & Petty Cash		1,000
Menus / Menu Boards		3,750
Lease Deposit		5,000
Travel, Research, Concept Development		3,500
INTERIOR FINISHES & EQUIPMENT	66,500	
Kitchen Smallwares		12,000
Artwork & Specialty Décor		10,000
Security System		3,000
Music/Sound/Audio-Visual Systems		12,500
Cash Register / Point of Sale		20,000
Phone System		4,500
Office Equipment / Computer		2,500
Office Supplies		500
Interior Signs		1,500
EXTERIOR FINISHES & EQUIPMENT	48,500	
Landscaping		12,000
Exterior Signs & Decorations		15,000
Resurfacing		15,000
Parking Bumpers		4,000
Parking Lot Striping		2,500
PRE-OPENING EXPENSES	108,700	
Construction Period Utilities		4,000
Construction Period Building Lease		7,500
Construction Period Interest		2,500
Uniforms		1,200
Opening Inventories -		
Food		10,000
Beer, Liquor & Wine		15,000
Paper & Other Supplies		5,000
Marketing -		
Advertising		7,500
Public Relations		10,000
Opening Parties		7,000
Personnel -		
Management & Chef		15,000
Hourly Employees		15,000
Payroll Taxes & Employee Benefits		3,000
Payroll Taxes		6,000
WORKING CAPITAL & CONTINGENCY	130,525	
Working Capital		75,000
Contingency		55,525
TOTAL PROJECT COST	\$ 765,700	

Sales Projection

Projecting a realistic and achievable sales volume is at the heart of every restaurant business plan. Nearly all of the restaurant's expenses, as well as the profit, cash flow and return on investment are impacted directly by sales volume.

To estimate sales volume in a to-be-developed restaurant, both the average check per guest and guest counts by meal period should be objectively analyzed and projected. The following schedule from the "Sales Projection" tab in the Financial Projections may help you come up with a realistic average check.

Estimating Average Check (per guest)

Dinner	Ave. Price Point	% Ordered	# of Orders	Ave. CK Food	Ave CK Bev	Ave CK
Food -						
Entrée	10.50	100%	1.0	10.50		
Appetizer	6.00	20%	1.0	1.20		
Dessert	4.00	20%	1.0	0.80		
Beverages -						
Non-Alcoholic	1.00	20%	1.0	0.20		
Tap Water	0.00	20%	1.0			
Liquor	4.50	10%	1.5		0.68	
Beer	3.25	20%	1.5		0.98	
Wine	4.50	30%	2.0		2.70	
TOTALS		100%		12.70	4.35	17.05

In the above case, for the dinner meal period, the average price of an entrée is assumed to be \$10.5 and every customer (100%) will order one. The average price of an appetizer is \$5.00 with 20% of the guests ordering one.

Average beverage sales per guest are arrived at by estimating the average selling price of each beverage type, assuming what percent of guests will select each type and how many drinks the average guest will order. For example, the average liquor drink is priced at \$4.50, 10% of the quests will order a liquor drink and the average number ordered will be 1.5.

In the above example, the average check at dinner for this restaurant is estimated to be \$17.05, \$12.70 in food and \$4.35 in beverages.

If you are using the QSR version enter your estimated check average (per person average - PPA) for counter sales and drive-thru sales for each meal period. Also, make an assumption regarding how many people will be served in an average vehicle going through the drive-thru window.

Meal Period	Counter	Drive-Thru	
	PPA	PPA	Ave # of Occupants
Breakfast	3.00	2.75	1.2
Lunch	5.50	5.25	2.2
Dinner	6.00	5.75	2.5

Estimating Guest/Customer Counts By Meal Period

In most restaurants the number of guests served can vary dramatically by meal period and day of the week. For example, many restaurants do as much as 50% or more of their weekly sales on Friday and Saturday. This makes it important to consider expected guest activity for every meal period in a typical week.

To get a sense of the level of business that can be expected it helps to become very familiar with what kind of customer activity existing restaurants are experiencing in your immediate market area. Spend some time in these restaurants and through observation and casual discussions with employees and even managers, inquire about their busy and slow times. Ask about how many table turns they do on different days of the week. Are sales trending higher than last year or are they slower than they were last year. If you're tactful and friendly it's often amazing what information they'll share.

On the following page is the Sales Projection Worksheet. For a typical week, enter the expected table turns for each meal period. The worksheet will automatically calculate the number of guests and sales per meal period, day and week based on the average check assumptions you entered on the bottom of this worksheet page. These numbers become the basis for sales volume on the operating statements.

Blue Water LLC

Sales Projection Worksheet - Typical Week

Number of Seats 150

		Table Turns	Covers	Daily Sales By Category				Total	% of Week
				Food	Liquor	Beer	Wine		
Monday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	0.7	105	874	47	68	142	1,131	
	Dinner	1.0	150	1,905	101	146	405	2,558	
	Day Totals			2,779	149	215	547	3,689	9.0%
Tuesday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	0.8	120	999	54	78	162	1,293	
	Dinner	1.1	165	2,096	111	161	446	2,813	
	Day Totals			3,095	165	239	608	4,106	10.0%
Wednesday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	0.9	135	1,124	61	88	182	1,455	
	Dinner	1.2	180	2,286	122	176	486	3,069	
	Day Totals			3,410	182	263	668	4,524	11.0%
Thursday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	1.0	150	1,249	68	98	203	1,616	
	Dinner	1.5	225	2,858	152	219	608	3,836	
	Day Totals			4,106	219	317	810	5,453	13.2%
Friday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	1.2	180	1,499	81	117	243	1,940	
	Dinner	2.0	300	3,810	203	293	810	5,115	
	Day Totals			5,309	284	410	1,053	7,055	17.1%
Saturday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	1.5	225	1,873	101	146	304	2,424	
	Dinner	2.5	375	4,763	253	366	1,013	6,394	
	Day Totals			6,636	354	512	1,316	8,818	21.4%
Sunday	Breakfast	0.0	0	0	0	0	0	0	
	Lunch	1.5	225	1,873	101	146	304	2,424	
	Dinner	2.0	300	3,810	203	293	810	5,115	
	Day Totals			5,683	304	439	1,114	7,539	18.3%
WEEK TOTALS (restaurant only)			Totals in \$	31,017	1,657	2,394	6,116	41,183	
			Sales Mix %	75.3%	4.0%	5.8%	14.8%	100.0%	
Special Events (banquets, parties, catering)	Ave. # of Banquets, Parties/ Week		1.5						
	Ave. # of Guests		75						
	Per Person Average \$		\$20.00						
	Sales Mix %		80%	10%	3%	7%	100%		
Special Event Sales Per Week			1,800	225	68	158	2,250		
WEEK TOTALS - All Sales			Totals in \$	32,817	1,882	2,461	6,273	43,433	
			Sales Mix %	75.6%	4.3%	5.7%	14.4%	100.0%	

If you have a banquet room or plan on providing catering services, you can project average weekly sales from these types of Special Events in this worksheet as well.

Hourly Labor Cost Projection

Hourly labor cost is one of the largest expenses in any restaurant. Don't just assume that your hourly labor cost will be XX% of sales just because of what other restaurants are doing. There are many variables that effect hourly labor and they can be different even in what may appear to be very similar restaurant operations. Take the time to project your labor cost by position for each meal period in a typical week based on the level of business activity you actually expect.

The Hourly Labor Projection Worksheet allows you to list and assign average hourly wage rates to each position in the kitchen and dining room. Then, while taking into consideration each meal period's covers (number of meals served) and sales volume, estimate the hours and number of employees needed in each position to adequately staff the restaurant.

As a general rule for tableservice restaurants, the goal is to keep hourly labor (gross payroll) at or below 18%-20% of sales. Hourly labor cost on busy nights can be as low as 11%-12% of sales, whereas on slow nights, it can be as high 22%-25%. The goal for the week, however, in most cases would be to shoot for an hourly labor cost of 18% or less.

If you have a banquet room or plan on providing catering services, there is also an area at the bottom of the Hourly Labor Projection worksheet to estimate the labor cost associated with Special Event and Catering functions.

Blue Water LLC

Projection of Hourly Labor Cost

- EARLY -																
(breakfast & lunch)		Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Sunday		WEEK
Covers		105		120		135		150		180		225		225		1,140
Total Restaurant Sales		\$1,131		\$1,293		\$1,455		\$1,616		\$1,940		\$2,424		\$2,424		\$12,284
Position	Rate	Hours	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours	#	Labor \$
Kitchen -																
Dishroom	\$ 6.00	6.0	1	6.0	1	6.0	1	6.0	1	6.0	1	6.0	1	6.0	1	252
Prep Cooks	\$ 7.50	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	420
Line Cooks	\$ 8.00	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	448
Expo	\$ 10.00	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	560
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Dining Room -																
Servers	\$ 2.18	5.0	3	5.0	3	5.0	3	5.0	4	5.0	5	5.0	5	5.0	5	305
Host / Hostess	\$ 6.00	4.0	1	4.0	1	4.0	1	4.0	1	4.0	1	4.0	1	4.0	1	168
Bussers	\$ 6.00	6.0	1	6.0	1	6.0	1	6.0	1	6.0	1	6.0	1	6.0	1	252
Bartenders	\$ 3.50	4.0	1	4.0	1	4.0	1	4.0	1	4.0	1	4.0	1	4.0	1	98
Cashiers	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Labor Cost Per Shift - \$		347		347		347		358		369		369		369		2,503
Labor Cost Per Shift - %		30.6%		26.8%		23.8%		22.1%		19.0%		15.2%		15.2%		20.4%
- LATE -																
(dinner only)		Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Sunday		WEEK
Covers		150		165		180		225		300		375		300		1,695
Total Restaurant Sales		\$2,558		\$2,813		\$3,069		\$3,836		\$5,115		\$6,394		\$5,115		\$28,900
Position	Rate	Hours	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours	#	Labor \$
Kitchen -																
Dishroom	\$ 6.00	6.0	1	6.0	1	6.0	2	6.0	2	6.0	2	6.0	2	6.0	1	396
Prep Cooks	\$ 7.50	8.0	2	8.0	2	8.0	2	8.0	2	8.0	2	8.0	2	8.0	2	840
Line Cooks	\$ 8.00	8.0	2	8.0	2	8.0	2	8.0	2	10.0	2	10.0	2	8.0	2	960
Expo	\$ 10.00	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	8.0	1	560
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Dining Room -																
Servers	\$ 2.18	5.0	4	5.0	5	5.0	6	5.0	6	5.0	8	5.0	9	5.0	8	501
Host / Hostess	\$ 6.00	4.0	1	4.0	1	6.0	2	6.0	2	7.0	2	7.0	2	7.0	1	402
Bussers	\$ 6.00	6.0	1	6.0	2	6.0	2	6.0	3	6.0	3	8.0	3	8.0	2	636
Bartenders	\$ 3.50	6.0	1	6.0	1	7.0	2	7.0	2	8.0	2	8.0	2	8.0	1	280
Cashiers	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Other	\$ 0.00	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Labor Cost Per Shift - \$		489		536		658		694		767		814		617		4,575
Labor Cost Per Shift - %		19.1%		19.0%		21.5%		18.1%		15.0%		12.7%		12.1%		15.8%
- DAY / WEEK TOTALS - RESTAURANT LABOR -																
Hourly Labor - \$		835		882		1,005		1,052		1,136		1,183		986		7,079
Hourly Labor Cost - %		22.6%		21.5%		22.2%		19.3%		16.1%		13.4%		13.1%		17.2%

Assumptions to the Financial Projections

On the assumptions page enter the estimates of the remaining operating costs and expenses. We highly recommend you purchase the National Restaurant Association's Industry Operations Report as a way to "reality check" your numbers as compared with industry averages. Go to www.Restaurant.org for information.

Following are the major cost and expense categories included on the Assumptions worksheet -

Cost of Sales

Estimate cost of sales as a percentage of the corresponding sales category.

Cost of Sales			Annual \$	% of Sales
Food Cost %	32.0%	of food sales	546,075	
Liquor Cost %	20.0%	of liquor sales	19,574	
Beer Cost %	22.0%	of beer sales	28,155	
Wine Cost %	35.0%	of wine sales	114,169	
Total Cost of Sales			707,973	31.3%

Management Salaries

As a general rule management salaries should not exceed 10% of sales. A GM's salary often runs between 3%-4% of gross annual sales. If you're the owner/operator and you're also running the restaurant, you can, of course, pay yourself what you want. For purposes of the business plan however, it would probably be prudent to keep your compensation within the 3%-4% of sales range. Your compensation should not become a contentious issue to your lender or potential investors or detract from presenting the profit potential of the restaurant in the best possible light.

Management Salaries (Annual)	% of Sales	
1. General Manager	70,000	3.1%
2. Chef/Kitchen Manager	55,000	2.4%
3. Assistant Manager	40,000	1.8%
4. Assistant Manager	35,000	1.5%
5. Other	0	0.0%
Total Management Salaries	200,000	8.9%

Employee Benefits

Employee benefits include the employer's portion of payroll taxes, worker's comp., medical and other employee insurance premiums as well as other employee-related expenses. Employee benefits often run 5%-6% of gross sales and 20%-23% of gross payroll.

Employee Benefits	Monthly \$	Annual \$	% of Sales
1. FICA Taxes - as a % of Gross Payroll	8.00%	46,745	
2. State Unemployment-as a % of Gross P/R	1.50%	8,765	
3. Federal Unemployment-as a % of Gross P/R	0.80%	4,674	
4. Other Payroll Taxes-as a % of Gross P/R	0.00%	0	
5. Worker's Comp. - as a % of Gross P/R	6.0%	35,059	
6. Group Medical Ins.-cost per employee	350	21,000	
7. Group Medical Ins.-# of employees covered	5		
8. Disability & Life Insurance	300	3,600	
9. 401k Plan - per month	0	0	
10. Employee Meals - per month	750	9,000	
11. Employee Education - per month	0	0	
12. Awards & Prizes - per month	150	1,800	
13. Employee Christmas & Other Parties	200	2,400	
14. Transportation & Housing	0	0	
Total Employee Benefits		133,043	5.9%

Direct Operating Expenses

Direct operating expenses usually run 4%-6% of gross sales. Paper supplies can be entered as an estimated dollar cost per month or as a % of food sales.

Direct Operating Expenses	Monthly \$	% of Sales	Annual \$	% of Sales
1. Auto Expense	300		3,600	
2. Catering & Banquet Supplies	200		2,400	
3. Cleaning Supplies	600		7,200	
4. Contract Cleaning	750		9,000	
5. Extermination	600		7,200	
6. Flowers & Decorations	500		6,000	
7. Kitchen Utensils	600		7,200	
8. Laundry & Linen	750		9,000	
9. Licenses & Permits	400		4,800	
10. Menus & Wine Lists	300		3,600	
11. Miscellaneous	500		6,000	
12. Paper Supplies	0	1.50%	25,597	
13. Security System	250		3,000	
14. Tableware & Smallwares	600		7,200	
15. Uniforms	200		2,400	
Total Direct Operating Expenses			104,197	4.6%

Music & Entertainment

Depending on the specific concept and the type of music and entertainment utilized, expenses in this category can vary significantly. According to industry averages, music and entertainment costs run from an almost negligible amount to as much as 2%-3% of sales when live entertainment is employed on a regular basis.

Music & Entertainment -	Monthly \$	Annual \$	% of Sales
1. Musicians	0	0	
2. Musak & Sound System	250	3,000	
3. Other	0	0	
Total Music & Entertainment		3,000	0.1%

Marketing

Marketing includes expenses associated with promotions, advertising and marketing programs and materials. Industry averages show that most independent restaurants spend between 2%-4% of sales on marketing related items.

Marketing -	Monthly \$	Annual \$	% of Sales
1. Selling & Promotions	2,000	24,000	
2. Advertising	1,000	12,000	
3. Printed Materials	0	0	
4. Research	250	3,000	
Total Marketing		39,000	1.7%

Utilities

The cost of utilities can vary widely depending primarily on the location, local utility rates and prevailing climate conditions. Most restaurants report spending between 2%-4% of sales and from \$4-\$9 per square foot per year on utilities.

Utilities -	Monthly \$	Annual \$	% of Sales
1. Electricity	2,500	30,000	
2. Gas	800	9,600	
3. Water	700	8,400	
4. Trash Removal	250	3,000	
Total Utilities		51,000	2.3%

General & Administrative

In most situations G&A runs 3%-6% of sales. One big component and factor in this category is the use of credit cards by your customers. Use the cells below to factor the % of sales tendered on credit cards (as opposed to cash) and the average discount amount.

General & Administrative -	Monthly \$	Annual \$	% of Sales
1. Accounting Services	1,200	14,400	
2. Bank Charges	50	600	
3. Bank Deposit Services	500	6,000	
4. Cash (Over) / Short	50	600	
5. Credit Card Charges		44,041	
6. Dues & Subscriptions	400	4,800	
7. Miscellaneous	500	6,000	
8. Office Supplies	200	2,400	
9. Payroll Processing	200	2,400	
10. Postage	250	3,000	
11. Professional Fees	750	9,000	
12. Protective Services	800	9,600	
13. Telephone	600	7,200	
14. Training Materials	550	6,600	
Total General & Administrative		116,641	5.2%
Credit Card Charges:			
Percentage of Credit Card Sales	75.0%		
Average Discount Percentage	2.6%		

Repairs & Maintenance

R&M includes repairs and ongoing maintenance of equipment, building components and landscaping as well as the cost of equipment maintenance contracts. Restaurants in a new facility with new equipment should have below average repair and maintenance expenses for the first few years at least. As an industry average, R&M runs from 1%-2.5% in most restaurants.

Repairs & Maintenance	Monthly \$	Annual \$	% of Sales
1. Building Repairs & Maint.	500	6,000	
2. Equipment Repairs & Maint.	700	8,400	
3. Grounds, Landscaping & Parking Lot	600	7,200	
Total Repairs & Maintenance		21,600	1.0%

Occupancy Costs

Occupancy Costs includes primarily fixed expenses associated with the facility housing the restaurant. Kitchen equipment lease payments (if any), should also be included in Occupancy Costs. A good rule of thumb is to keep Occupancy Costs at or below 10% of sales. It is often very difficult to generate an adequate profit and return on investment when Occupancy Costs exceed 10% of sales. As a general rule, rent should not exceed 6% of sales.

In most restaurants, occupancy costs run \$12-\$22 per square foot. However, in many urban, particularly upscale, locations, occupancy costs can run much higher. Still, the 10% rule of thumb would hold. Our advice would be to not venture into any location that you're not confident the restaurant will generate at least 10 times the total occupancy costs in annual sales.

Occupancy Costs:	Monthly \$	Annual \$	% of Sales
1. Base (minimum) Rent	8,000	96,000	
2. Percentage Rent -		27,512	
Percentage amount	6.0%		
On annual sales above	1,800,000		
3. Common Area Maintenance (CAM)	500	6,000	
4. Equipment Rental	1,000	12,000	
5. Real Estate Taxes	2,000	24,000	
6. Personal Property Taxes	500	6,000	
7. Insurance on Building & Contents	1,500	18,000	
8. Liquor Liability	600	7,200	
Total Occupancy Costs		196,712	8.7%

It is extremely important to accurately estimate Occupancy Costs for the business plan projections. Get at least 2 estimates from competent professionals in the real estate and insurance industries to determine the real estate (ad valorem) taxes and insurance costs. You can't afford surprises in this area.

Depreciation & Amortization

Depreciation & amortization are non-cash expenses and represent the arbitrary write-off or expense allocation of capitalized assets like equipment, furniture & fixtures and pre-opening or startup expenses. Depreciation & Amortization is based on your capital costs as per the Capital Budget worksheet and your accountant's recommended method of depreciation. We used the straight-line method for depreciating the asset classes listed below.

Depreciation & Amortization:	Basis	Period	Per Year	% of Sales
1. Building	0	30 years	0	
2. Leasehold Improvements	327,525	39.5 years	8,292	
3. Furniture & Equipment	212,000	7 years	30,286	
4. Pre-Opening Costs	133,450	5 years	26,690	
Total Depreciation & Amortization			65,267	2.9%

In the operating projections we recommend adding Depreciation & Amortization back to Net Income (and subtracting loan principal payments) to arrive at the amount of Cash Flow generated by the restaurant each year.

Annual Operating Projection - Detail

The Detailed Operating Projection is automatically generated from the Sales Projection, Hourly Labor Projection and Operating Assumptions worksheets. This statement shows the results of a typical month by dividing the annual projection by 12.

You may want to delete line items which have a -0- balance, such as Catering & Banquet Expenses if this is not applicable to your situation.

The key ratios on this statement are PRIME COST and CONTROLLABLE PROFIT and of course NET INCOME BEFORE TAXES. In a tableservice restaurant, the goal is to have a prime cost of 65% or less. Controllable Profit should be at least 15% with a goal of hitting 20% or more. The National Restaurant Association has claimed for years that the average independent restaurant has a Net Income Before Taxes of around 5% of sales. There are many independent restaurants that do much better than what this "average" would suggest.

Blue Water LLC Annual Operating Projection - Detail First Full Year of Operations				
	MONTHLY AVE		ANNUAL	
Sales:				
Food	\$ 142,207	75.6%	\$ 1,706,484	75.6%
Liquor	8,156	4.3%	97,871	4.3%
Beer	10,665	5.7%	127,979	5.7%
Wine	27,183	14.4%	326,196	14.4%
TOTAL SALES	188,211	100.0%	2,258,529	100.0%
Cost of Sales:				
Food	45,506	32.0%	546,075	32.0%
Liquor	1,468	18.0%	17,617	18.0%
Beer	2,346	22.0%	28,155	22.0%
Wine	8,699	32.0%	104,383	32.0%
TOTAL COST OF SALES	58,019	30.8%	696,230	30.8%
Gross Profit	130,192	69.2%	1,562,299	69.2%
Payroll:				
Salaries & Wages -				
Management	16,667	8.9%	200,000	8.9%
Hourly Employees	32,026	17.0%	384,311	17.0%
Total Salaries & Wages	48,693	25.9%	584,311	25.9%
Employee Benefits -				
Payroll Taxes - Mgt. Incentive	5,015	2.7%	60,184	2.7%
Worker's Comp.	2,922	1.6%	35,059	1.6%
Group Medical Insurance	1,750	0.9%	21,000	0.9%
Other	1,400	0.7%	16,800	0.7%
Total Employee Benefits	11,087	5.9%	133,043	5.9%
TOTAL PAYROLL	59,779	31.8%	717,354	31.8%
PRIME COST	117,799	62.6%	1,413,583	62.6%
Other Controllable Expenses:				
Direct Operating Expenses				
Auto Expense	300	0.2%	3,600	0.2%
Catering & Banquet Expenses	200	0.1%	2,400	0.1%
Cleaning Supplies	600	0.3%	7,200	0.3%
Contract Cleaning	750	0.4%	9,000	0.4%
Extermination	600	0.3%	7,200	0.3%
Flowers & Decorations	500	0.3%	6,000	0.3%
Kitchen Utensils	600	0.3%	7,200	0.3%
Laundry & Linen	750	0.4%	9,000	0.4%
Licenses & Permits	400	0.2%	4,800	0.2%
Menus & Wine Lists	300	0.2%	3,600	0.2%
Miscellaneous	500	0.3%	6,000	0.3%
Paper Supplies	2,133	1.1%	25,597	1.1%
Security System	250	0.1%	3,000	0.1%
Tableware & Smallwares	600	0.3%	7,200	0.3%
Uniforms	200	0.1%	2,400	0.1%
Total Direct Operating Expenses	8,683	4.6%	104,197	4.6%

Music & Entertainment -				
Musicians	0	0.0%	0	0.0%
Musak & Sound System	250	0.1%	3,000	0.1%
Other	0	0.0%	0	0.0%
Total Music & Entertainment	250	0.1%	3,000	0.1%
Marketing -				
Selling & Promotions	2,000	1.1%	24,000	1.1%
Advertising	1,000	0.5%	12,000	0.5%
Printed Materials	0	0.0%	0	0.0%
Research	250	0.1%	3,000	0.1%
Total Marketing	3,000	1.6%	36,000	1.6%
Utilities -				
Electrical	2,500	1.3%	30,000	1.3%
Gas	800	0.4%	9,600	0.4%
Water	700	0.4%	8,400	0.4%
Trash Removal	50	0.0%	600	0.0%
Total Utilities	4,050	2.2%	48,600	2.2%
General & Administrative -				
Accounting Services	1,200	0.6%	14,400	0.6%
Bank Charges	50	0.0%	600	0.0%
Bank Deposit Services	500	0.3%	6,000	0.3%
Cash (Over) / Short	50	0.0%	600	0.0%
Credit Card Charges	3,670	2.0%	44,041	2.0%
Dues & Subscriptions	400	0.2%	4,800	0.2%
Miscellaneous	500	0.3%	6,000	0.3%
Office Supplies	200	0.1%	2,400	0.1%
Payroll Processing	200	0.1%	2,400	0.1%
Postage	250	0.1%	3,000	0.1%
Legal & Professional Fees	750	0.4%	9,000	0.4%
Protective Services	800	0.4%	9,600	0.4%
Telephone	600	0.3%	7,200	0.3%
Training Costs	550	0.3%	6,600	0.3%
Total General & Administrative	9,720	5.2%	116,641	5.2%
Repairs & Maintenance -				
Building Repairs & Maint.	500	0.3%	6,000	0.3%
Equipment Repairs & Maint.	700	0.4%	8,400	0.4%
Grounds, Landscaping & Parking Lot	600	0.3%	7,200	0.3%
Total Repairs & Maintenance	1,800	1.0%	21,600	1.0%
CONTROLLABLE PROFIT	42,909	22.8%	514,907	22.8%
Occupancy Costs & Depreciation				
Occupancy Costs -				
Rent & Common Area Maintenance	8,000	4.3%	96,000	4.3%
Percentage Rent	2,293	1.2%	27,512	1.2%
Common Area Maintenance (CAM)	500	0.3%	6,000	0.3%
Equipment Rental	1,000	0.5%	12,000	0.5%
Real Estate Taxes	2,000	1.1%	24,000	1.1%
Personal Property Taxes	500	0.3%	6,000	0.3%
Insurance on Building & Contents	1,500	0.8%	18,000	0.8%
Liquor Liability	600	0.3%	7,200	0.3%
Total Occupancy Costs	16,393	8.7%	196,712	8.7%
Depreciation & Amortization -				
Building	0	0.0%	0	0.0%
Leasehold Improvements	1,154	0.6%	13,848	0.6%
Furniture & Equipment	3,625	1.9%	43,500	1.9%
Pre-Opening Costs	2,224	1.2%	26,690	1.2%
Total Depreciation	7,003	3.7%	84,038	3.7%
TOTAL OCCUPANCY & DEPREC.	23,396	12.4%	280,750	12.4%
Other (Income) Expense -				
Vending & Telephone Commissions	(200)	(0.1%)	(2,400)	(0.1%)
Grease Sales	(100)	(0.1%)	(1,200)	(0.1%)
Misc Other Income	(100)	(0.1%)	(1,200)	(0.1%)
Interest	4,379	2.3%	52,547	2.3%
Misc Other Expense	200	0.1%	2,400	0.1%
Total Other (Income) Expense	4,179	2.2%	50,147	2.2%
NET INCOME BEFORE INCOME TAXES	\$ 15,334	8.1%	\$ 184,010	8.1%
ADD BACK:				
Depreciation & Amortization	7,003	3.7%	84,038	3.7%
DEDUCT:				
Loan Principal Payments	(3,843)	(24.5%)	(46,117)	(2.0%)
CASH FLOW BEFORE INCOME TAXES	\$ 18,494	9.8%	\$ 221,930	9.8%

Annual Operating Projection - Summary

The Summary Operating Projection may be preferred over the Detailed Operating Projection by some people who aren't interested in all the details. It's concise, easy to understand and contains the key restaurant industry ratios most people will want to know. Refer to the Sales Projection and Hourly Labor schedules if there are questions regarding the numbers on the Summary Operating Projection and the Detailed Operating Projection.

Sales per square foot and per seat are important as they relate to industry averages and point toward profit potential. In most instances where Occupancy Costs and other operating expenses are in line with industry averages, restaurants that generate over \$400 annual sales per square foot and \$10,000 annual sales per seat have the potential to generate at least moderate profitability.

The sales to investment ratio is an important indicator of potential success or failure. The higher the projected level of sales compared to the total startup costs (Capital Budget), the greater potential the venture has for success. If the restaurant is leased, many restaurant professionals believe the sales to investment ratio should be at least 1.5 to 1.0. See ["How to Reduce the Risk of Opening a New Restaurant"](#) for more information.

Blue Water LLC					
Annual Operating Projection - Summary					
First Full Year of Operations					
	MONTHLY AVE		ANNUAL		
Sales:					
Food	\$ 142,207	75.6%	\$ 1,706,484	75.6%	
Beverage	46,004	24.4%	552,045	24.4%	
TOTAL SALES	188,211	100.0%	2,258,529	100.0%	
Cost of Sales:					
Food	45,506	32.0%	546,075	32.0%	
Beverage	12,513	27.2%	150,155	27.2%	
TOTAL COST OF SALES	58,019	30.8%	696,230	30.8%	
Gross Profit	130,192	69.2%	1,562,299	69.2%	
Payroll:					
Salaries & Wages	48,693	25.9%	584,311	25.9%	
Employee Benefits	11,087	5.9%	133,043	5.9%	
TOTAL PAYROLL	59,779	31.8%	717,354	31.8%	
PRIME COST	117,799	62.6%	1,413,583	62.6%	
Other Controllable Expenses:					
Direct Operating Expenses	8,683	4.6%	104,197	4.6%	
Music & Entertainment	250	0.1%	3,000	0.1%	
Marketing	3,000	1.6%	36,000	1.6%	
Utilities	4,050	2.2%	48,600	2.2%	
General & Administrative Expenses	9,720	5.2%	116,641	5.2%	
Repairs & Maintenance	1,800	1.0%	21,600	1.0%	
TOTAL OTHER CONTROLLABLE EXP.	27,503	14.6%	330,039	14.6%	
CONTROLLABLE PROFIT	42,909	22.8%	514,907	22.8%	
Occupancy Costs & Depreciation					
Occupancy Costs	16,393	8.7%	196,712	8.7%	
Depreciation & Amortization	7,003	3.7%	84,038	3.7%	
Other (Income) Expenses					
Other (Income)	(400)	(0.2%)	(4,800)	(0.2%)	
Interest Expense	4,379	2.3%	52,547	2.3%	
Other Expense	200	0.1%	2,400	0.1%	
NET INCOME BEFORE INCOME TAXES	\$ 15,334	8.1%	\$ 184,010	8.1%	
ADD BACK:					
Depreciation & Amortization	7,003	3.7%	84,038	3.7%	
DEDUCT:					
Loan Principal Payments	(3,843)	(2.0%)	(46,117)	(2.0%)	
CASH FLOW BEFORE INCOME TAXES	\$ 18,494	9.8%	\$ 221,930	9.8%	
KEY RATIOS:					
Sales Per Square Foot					\$645
Sales Per Seat					\$15,057
Sales to Investment					2.1

5 Year Operating & Investment Projections

The 5 Year Operating Projections begins in year one with the numbers from the Annual Operating Projection – Summary discussed above. Years 2-5 are derived from the projected changes in sales and expense levels of the prior year. For example, on the bottom of the 5 Year Operating Projections worksheet is the following table to enter your assumptions regarding year to year changes in each Operating Projection line item.

OPERATING ASSUMPTIONS - Years 2 - 5				
Sales - % Increase Over Prior Year				
Food	4.0%	4.0%	4.0%	4.0%
Beverage	4.0%	4.0%	4.0%	4.0%
Cost of Sales - Cost as a % of Sales				
Food	32.0%	32.0%	32.0%	32.0%
Beverage	27.2%	27.2%	27.2%	27.2%
Salaries & Wages - % Increase over Prior Year				
Salaries & Wages	4.0%	4.0%	4.0%	4.0%
Employee Benefits	4.0%	4.0%	4.0%	4.0%
Other Expenses - % Increase over Prior Year				
Direct Operating Expenses	3.0%	3.0%	3.0%	3.0%
Music & Entertainment	3.0%	3.0%	3.0%	3.0%
Marketing	3.0%	3.0%	3.0%	3.0%
Utilities	3.0%	3.0%	3.0%	3.0%
General & Administrative Expenses	3.0%	3.0%	3.0%	3.0%
Repairs & Maintenance	3.0%	3.0%	3.0%	3.0%
Occupancy Costs	2.0%	2.0%	2.0%	2.0%
Depreciation & Amortization (assumed to be constant in years 1-5)				
Other (Income)	3.0%	3.0%	3.0%	3.0%
Interest Expense (from annual interest expense on loan amortization schedule on "Assumptions" page)				
Other Expense	3.0%	3.0%	3.0%	3.0%
Loan Principal Payments (from annual total principal payments on loan amortization schedule on "Assumptions" page)				

Investment Assumptions

Many restaurant ventures are capitalized with funds from outside investors. While the formation and organization of these deals vary, the Investment Assumptions make it easy to accommodate a common way of structuring a restaurant venture where there is an operating partner and one or more investments partners.

In this structure the operating partner makes a nominal capital contribution with the bulk of the equity contributed by the investment partner(s). The investment partner(s) receives all or a high proportion of the distributable cash flow until all of the investment partner(s) capital contributions are paid back in full (referred to as “payback”). After payback is achieved, the cash distribution ratio changes, giving the operating partner a greater share of cash distribution for the remaining life of the venture.

As you can see in the table below, you can show the equity contributions of both the operating and investment partners with different cash distribution ratios before and after payback.

INVESTMENT ASSUMPTIONS	
Total Equity Investment	\$400,000
Operating Partner/Member (LLC)	
Equity Contribution	\$25,000
Cash Distribution Ratio Before Investor Payback*	25%
Cash Distribution Ratio After Investor Payback	50%
Investment Partner/Member (LLC)	
Equity Contribution	\$375,000
Cash Distribution Ratio Before Investor Payback	75%
Cash Distribution Ratio After Investor Payback	50%
* Investor "Payback" is the point at which the investor recoups 100% of their Equity Contribution.	

Projected Investment Returns

After the 5 Year Operating Projections are completed determine the distributable cash flow percentage for each year in the fields just below "Cash Flow Before Taxes". It is generally prudent to plan on retaining some portion of annual cash flow in the business as a reserve for working capital, possible future operating deficits and capital improvement or expansion projects. Some successful operators retain 1% of total sales per year for future capital improvements such as roof, flooring, equipment replacement and re-imaging.

Based on your operating and investment assumptions the spreadsheet model will calculate the Payback Period of the investment partner's initial equity contribution as well as the investment partner's Return on Investment by year.

The Payback Period is important because it tells a potential investor when they can expect to recoup the money they invested in the venture. It is common for investors in startup independent restaurants to look for a payback period of 2-3 years. This is why the investment partner(s) often receives a disproportionate share of the cash flow until payback is achieved.

Please note that all the numbers including Net Income, Cash Flow, Payback Period and Return on Investment on this statement do not account for the affect of State and Federal Income Taxes. Potential investors may wish to have their accountants calculate the impact of such taxes on the projected returns.

Blue Water LLC

5 Year Operating Projections

	Year 1		Year 2		Year 3		Year 4		Year 5	
Sales:										
Food	\$ 1,706,484	75.6%	\$ 1,774,743	75.6%	\$ 1,845,733	75.6%	\$ 1,919,562	75.6%	\$ 1,996,345	75.6%
Beverage	552,045	24.4%	574,127	24.4%	597,092	24.4%	620,976	24.4%	645,815	24.4%
TOTAL SALES	2,258,529	100.0%	2,348,870	100.0%	2,442,825	100.0%	2,540,538	100.0%	2,642,159	100.0%
Cost of Sales:										
Food	546,075	32.0%	567,918	32.0%	590,635	32.0%	614,260	32.0%	638,830	32.0%
Beverage	150,155	27.2%	156,162	27.2%	162,409	27.2%	168,905	27.2%	175,662	27.2%
TOTAL COST OF SALES	696,230	30.8%	724,080	30.8%	753,044	30.8%	783,165	30.8%	814,492	30.8%
Gross Profit	1,562,299	69.2%	1,624,790	69.2%	1,689,781	69.2%	1,757,373	69.2%	1,827,668	69.2%
Payroll:										
Salaries & Wages	584,311	25.9%	607,684	25.9%	631,991	25.9%	657,271	25.9%	683,561	25.9%
Employee Benefits	133,043	5.9%	138,364	5.9%	143,899	5.9%	149,655	5.9%	155,641	5.9%
TOTAL PAYROLL	717,354	31.8%	746,048	31.8%	775,890	31.8%	806,926	31.8%	839,203	31.8%
PRIME COST	1,413,583	62.6%	1,470,128	62.6%	1,528,934	62.6%	1,590,091	62.6%	1,653,695	62.6%
Other Controllable Expenses:										
Direct Operating Expenses	104,197	4.6%	107,323	4.6%	110,543	4.5%	113,859	4.5%	117,275	4.4%
Music & Entertainment	3,000	0.1%	3,090	0.1%	3,183	0.1%	3,278	0.1%	3,377	0.1%
Marketing	36,000	1.6%	37,080	1.6%	38,192	1.6%	39,338	1.5%	40,518	1.5%
Utilities	48,600	2.2%	50,058	2.1%	51,560	2.1%	53,107	2.1%	54,700	2.1%
General & Administrative Expenses	116,641	5.2%	120,141	5.1%	123,745	5.1%	127,457	5.0%	131,281	5.0%
Repairs & Maintenance	21,600	1.0%	22,248	0.9%	22,915	0.9%	23,603	0.9%	24,311	0.9%
TOTAL OTHER CONTROLLABLE EXP.	330,039	14.6%	339,940	14.5%	350,138	14.3%	360,642	14.2%	371,461	14.1%
CONTROLLABLE PROFIT	514,907	22.8%	538,802	22.9%	563,753	23.1%	589,805	23.2%	617,004	23.4%
Occupancy Costs & Depreciation										
Occupancy Costs	196,712	8.7%	200,646	8.5%	204,659	8.4%	208,752	8.2%	212,927	8.1%
Depreciation & Amortization	84,038	3.7%	84,038	3.6%	84,038	3.4%	84,038	3.3%	84,038	3.2%
Other (Income) Expenses										
Other (Income)	(4,800)	(0.2%)	(4,944)	(0.2%)	(5,092)	(0.2%)	(5,245)	(0.2%)	(5,402)	(0.2%)
Interest Expense	52,547	2.3%	48,720	2.1%	44,574	1.8%	40,085	1.6%	35,223	1.3%
Other Expense	2,400	0.1%	2,472	0.1%	2,546	0.1%	2,623	0.1%	2,701	0.1%
NET INCOME BEFORE INCOME TAXES	\$ 184,010	8.1%	\$ 207,870	8.8%	\$ 233,028	9.5%	\$ 259,553	10.2%	\$ 287,517	10.9%
ADD BACK:										
Depreciation & Amortization	84,038	3.7%	84,038	3.6%	84,038	3.4%	84,038	3.3%	84,038	3.2%
DEDUCT:										
Loan Principal Payments	(46,117)	(2.0%)	(49,945)	(2.1%)	(54,091)	(2.2%)	(58,580)	(2.3%)	(63,442)	(2.4%)
CASH FLOW BEFORE INCOME TAXES	\$ 221,930	9.8%	\$ 241,963	10.3%	\$ 262,976	10.8%	\$ 285,011	11.2%	\$ 308,113	11.7%
PROJECTED INVESTMENT RETURNS										
Distributable Cash Flow Percent *	70%		80%		90%		90%		90%	
Distributable Cash Flow	\$155,351		\$193,571		\$236,678		\$256,510		\$277,302	
Cash Distribution:										
Investment Partner/Member (LLC)	\$116,513		\$145,178		\$145,409		\$128,255		\$138,651	
Operating Partner/Member (LLC)	\$38,838		\$48,393		\$91,270		\$128,255		\$138,651	
Investment Partner/Member (LLC) Returns:										
Net Investment After Cash Distributions - End of Year	\$258,487		\$113,309		\$0		\$0		\$0	
Payback Period	2.5 yrs.									
Annual Return on Investment (before tax)	31.1%		38.7%		38.8%		34.2%		37.0%	
Average Annual Return on Investment	35.9%									
* It may be advantageous to retain a portion of the cash flow in the business for working capital, capital improvement reserves or for other reasons.										

Break-Even

You can pretty much count on any potential investor or lender to ask the following question, “What level of sales do you need to cover all your expenses?” By doing a break-even analysis you can not only give them an answer but show them exactly how the number was arrived at.

Break-Even Worksheet

The break-even worksheet uses numbers on the Summary P&L and the Assumptions page to separate the various costs into being either a “fixed” or “variable”. While break-even is not an exact science, you should get very close to an accurate break-even sales volume by following our methodology described below.

Fixed Costs

Fixed costs or expenses are those that do not change or change very slightly with variations in sales volume. Examples of fixed costs include management salaries, equipment rental and base rent. Other costs, while not 100% fixed, do not change significantly when sales go up or down. These types of fixed costs include utilities, most direct operating expenses and marketing expenses.

Fixed Costs		Annual	Monthly
Total Management Salaries		\$ 200,000	\$ 16,667
Minimum Hourly Labor	70%	\$ 269,018	\$ 22,418
Employee Benefits		\$ 114,250	\$ 9,521
Direct Operating Expenses		\$ 78,600	\$ 6,550
Music & Entertainment -		\$ 3,000	\$ 250
Marketing -		\$ 39,000	\$ 3,250
Utilities -		\$ 51,000	\$ 4,250
General & Administrative -		\$ 72,600	\$ 6,050
Repairs & Maintenance		\$ 21,600	\$ 1,800
Occupancy Costs:		\$ 169,200	\$ 14,100
Interest		\$ 52,547	\$ 4,379
Misc Other Expense		\$ 2,400	\$ 200
Loan Principal Payments		\$ 46,117	\$ 3,843
		<u>\$ 1,119,333</u>	<u>\$ 93,278</u>

In our sample financial projections model, these costs have been classified as “fixed.” Note the “Minimum Hourly Labor” item. Hourly labor tends to have both a “fixed” and “variable” component. As sales increase or decrease, labor hours can be adjusted but not in direct proportion to the change in sales. Also, there is a certain, baseline number of employees and hours needed to minimally staff the restaurant. For this reason, we recommend you identify a Minimum Hourly Labor cost that is some percentage of the hourly labor cost you calculated on the Hourly Labor Projection Worksheet. A reasonable amount may be 60% to 75%. Enter this amount in the shaded box on this page (see above). The remaining portion of hourly labor will be considered variable (see below).

Variable Costs

Variable costs change in direct proportion to sales volume. For example, costs of sales, credit card expenses and percentage rent, if applicable, are variable costs.

Variable Costs	% of Sales	\$
Cost of Sales	30.8%	\$ 47,958
Hourly Labor	5.1%	\$ 7,942
Employee Benefits	0.8%	\$ 1,294
Credit Card Expense	2.0%	\$ 3,034
Paper Supplies	1.1%	\$ 1,763
	39.8%	\$ 61,991
	Annual	Monthly
Percentage Rent	\$ 3,648	\$ 304

The worksheet automatically pulls individual the variable costs out of Employee Benefits (payroll taxes on variable portion of Hourly Labor), credit card expenses out of Administrative & General and paper supplies out of Direct Operating Expenses.

Cash Flow Break-Even

Based on the amount of total fixed costs and the variable cost %, the cash flow break-even sales volume is automatically calculated and shown annually, monthly and weekly.

	Annual	Monthly	Weekly
Break-even Sales	\$ 1,866,872	\$ 155,573	\$ 35,901
Sales Break-Down:			
Food	\$ 1,410,558	\$ 117,547	\$ 27,126
Liquor	\$ 80,899	\$ 6,742	\$ 1,556
Beer	\$ 105,785	\$ 8,815	\$ 2,034
Wine	\$ 269,630	\$ 22,469	\$ 5,185
Total	\$ 1,866,872	\$ 155,573	\$ 35,901

Break-Even P&L Summary

The cash flow break-even is also presented in the P&L Summary format.

Blue Water LLC				
Cash Flow Break-Even Sales Volume				
	MONTHLY		ANNUAL	
Sales:				
Food	\$ 117,547	75.6%	\$ 1,410,558	75.6%
Beverage	38,026	24.4%	456,314	24.4%
TOTAL SALES	155,573	100.0%	1,866,872	100.0%
Cost of Sales:				
Food	37,615	32.0%	451,379	32.0%
Beverage	10,343	27.2%	124,116	27.2%
TOTAL COST OF SALES	47,958	30.8%	575,495	30.8%
Gross Profit	107,615	69.2%	1,291,377	69.2%
Payroll:				
Salaries & Wages	47,026	30.2%	564,318	30.2%
Employee Benefits	10,815	7.0%	129,784	7.0%
TOTAL PAYROLL	57,842	37.2%	694,102	37.2%
PRIME COST	105,800	68.0%	1,269,596	68.0%
Other Controllable Expenses:				
Direct Operating Expenses	8,313	5.3%	99,758	5.3%
Music & Entertainment	250	0.2%	3,000	0.2%
Marketing	3,250	2.1%	39,000	2.1%
Utilities	4,250	2.7%	51,000	2.7%
General & Administrative Expenses	9,084	5.8%	109,004	5.8%
Repairs & Maintenance	1,800	1.2%	21,600	1.2%
TOTAL OTHER CONTROLLABLE EXP.	26,947	17.3%	323,362	17.3%
CONTROLLABLE PROFIT	22,826	14.7%	273,913	14.7%
Occupancy Costs & Depreciation				
Occupancy Costs	14,404	9.3%	172,848	9.3%
Depreciation & Amortization	7,003	4.5%	84,038	4.5%
Other (Income) Expenses				
Other (Income)	0	0.0%	0	0.0%
Interest Expense	4,379	2.8%	52,547	2.8%
Other Expense	200	0.1%	2,400	0.1%
NET INCOME BEFORE INCOME TAXES	(\$3,160)	(2.0%)	(\$37,921)	(2.0%)
ADD BACK:				
Depreciation & Amortization	7,003	4.5%	84,038	4.5%
DEDUCT:				
Loan Principal Payments	(3,843)	(2.5%)	(46,117)	(2.5%)
CASH FLOW BEFORE INCOME TAXES	\$ 0	0.0%	(\$0)	(0.0%)
BREAK-EVEN SALES				
Week	\$35,901			
Month	\$155,573			
Year	\$1,866,872			