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Amalgamated Sydney Flying Squadron/Australian 18 Footers Business Case

Introduction

After several years of discussions, SFS called for expressions of interest to amalgamate. A18s performed a due diligence exercise and saw the amalgamation as a positive step for both clubs survival and future prosperity.

Work this year has culminated in a proposed amalgamation between the two clubs. The headline principle to the amalgamation is defined in the constitution as:

to foster, encourage and promote the sailing of historic 18 foot skiffs, modern 18 foot skiffs, other skiff based sailing boats, and other classes of boats on the waters of Sydney Harbour as approved by the Board from time to time.

With a single business operating both clubhouses, improved operational efficiencies are expected that will assist in the ability to invest more into marketing and running each sailing program but the essence of racing at each prospective club will remain unchanged.

Below is a discussion on the Financials and associated information. Where the two clubs have come from and where they are predicted to end up.

Also discussed is the Operational Model - Risk and Mitigation Strategy which considers how the amalgamated club could work and looks at what can be done if there are problems with the forecasting.

The Sailing Strategy is a separate document and can be found on the website at:

<https://18footers.com/wp-content/uploads/2023/11/Sailing-Strategy-Amalgamation-2024.pdf>.

This is a work in progress document that we plan to continue to refine as time permits.

The Operation Model - Risk and Mitigation Strategy

The club operations at the A18s is a proven model to operate under.

What are the A18s strengths?

1. Proven professional operational management of a bar, restaurant and sailing product
2. Operational Stability with good Cashflow and a strong Cash Position
3. High membership numbers
4. An established clubhouse bar, restaurant and cafe
5. A proven commercial sailing product
6. Alignment of constitutional objectives to the SFS
7. Invested interest in preserving 18s

What are the SFS strengths?

1. Balance Sheet strength (Pattons)
2. An established H18 fleet and sailing product
3. An established clubhouse including a Bar and Restaurant, Cafe operating with a small positive result.
4. A small but passionate sailing membership with a high interest in preserving H18 sailing

The Operating Model

Initially, the two clubs would continue to keep trading as is.

A18s

- Continue throughout the rest of the financial year with little to no change to the approach to operating the clubhouse and the sailing programme.
- There are currently a number of capital works initiatives that will continue as an improvement and expansion to the clubhouse facility.

SFS

- The H18 Sailing program will continue as is.
- The SFS Clubhouse Catering and Management Agreement to be reviewed. The method of operating and the fees associated with the operation need to change.
- Membership. The core to a business trading under Club NSW is the requirement for membership to be permitted into the club (or be signed in by a member, or be considered out of area and sign in to the club). This is largely not adhered to, particularly with the deck patronage licensed area. There has been only a small effort in promoting membership and its benefits, nor enforcing membership access.
- Pattons
 - Review of existing leases for maximising revenues for the medium and long term
 - Energise the maintenance of the slipway to increase the tenancy revenue therefore the ability to pay a higher lease rental.

- Build out a Capital Expenditure Plan for the site.
- For the proposed DA for the Hardstand and Floating Dock
 - Submit the DA
 - Apply for a renewal of the current Maritime Authority lease - maximum time allowable (30 years?)
 - submit another DA for the repairs to the Slipway
 - On approved repairs DA, repair the Slipway to confirm to the lease requirement
 - Operate the Slipway under the renewed Lease, allowing the slipway operator to continue operations with higher utilisation and revenues
 - If the Hardstand DA eventuates, build just the floating dock, or do both.

Risk and Mitigation Strategy

Risk	Mitigation Options
A lack of compliance under Club NSW Act and Liquor and Gaming continues at SFS	A change to accessing the deck. Either the license conditions are removed to continue the cafe on the deck, OR, change this to a member only area and repurpose the cafe.
Inducing an enforced membership model in the Bar/Restaurant results in significantly less revenues	<p>A change to the access to upstairs, one entrance only. And then during business hours, gate keep the access for members only and appropriate sign in. This has proven it can be directly funded by increased memberships.</p> <p>Activate a marketing campaign about membership and what benefits there are to be part of the SFS Clubhouse.</p> <p>If the revenues cannot be lifted within 12 months, look at repurposing the Bar/Restaurant area.</p> <ul style="list-style-type: none"> ● Convert the upstairs bar and restaurant to a functions only area and have the member area predominantly in the downstairs area. ● Close down the upstairs bar and restaurant and lease the area out as an alternative tenancy (ie: gym).
Capital Works required is more than the cashflow can accommodate	For SFS there has been a Condition Report showing the need for minor works. Includes remedial work on water ingress on the northern wall and an electrical board improvement.

	<p>Also, an internal repaint, carpet, lighting, Audio Visual. However there is nothing urgent and the costs of these have been estimated and when trading more positively funds can be used for these works</p> <p>For A18s. The Capital Work Program is well established with a 5 year masterplan. This is being executed at the moment and managed closely to the budget vs the actuals. Slowing down the program is an option if cashflows weaken.</p>
<p>Pattons needs a lot of money spent on Capital to continue operations.</p>	<p>The Slipway is trading below its potential due to the state of the rails and cradles. Work is currently underway in working out how to renovate the slipway to lift its trade potential, revenue and therefore return.</p> <p>There is a Development Application pending to redevelop the slipway with a hard stand, crane, and floating dock. The business case for this development will be reviewed.</p> <p>There are capital works needed namely the slipway rails and cradles, the electrical board in the main building, the fire detection system. These works are significant in estimation, some \$400,000. Funding for the large part of this is being negotiated with the incumbent slipway operator.</p>
<p>Despite all the best efforts to realise trading profits at the SFS, it doesn't happen.</p>	<p>There has been interest from The Ensemble Theatre to buy all or a portion of the freehold land. Considering the bank valuation of Pattons of \$5.6m, this partial sale could generate significant cash flow to overcome immediate operational deficit. However, it will be a last resort option.</p>

Financials

Profit and Loss

	Amal	A18s			SFS		
Profit and Loss (pg 9 A18 FY2023)	forecast Amal 2025	forecast A18s 2024	A18 2023	A18 2022	forecast SFS 2024	SFS 2023	SFS 2022
Revenue	5,351,000	3,984,000	3,698,620	2,833,290	1,065,000	1,055,872	965,471
Bar trading expenses	-2,336,000	-1,664,000	-1,526,268	-1,095,146	-550,000	-516,708	-426,614
Corporate expenses	-900,000	-670,000	-615,026	-499,194	-400,000	-408,016	-488,996
Sailing expenses	-850,000	-900,000	-858,558	-819,954	0	-6,643	-22,380
Operating profit before Interest, Depreciation and Amortisation	1,265,000	750,000	698,768	418,996	115,000	124,505	27,481
Interest paid/Finance Costs	-120,000	-8,000	-3,225	-3,431	-65,000	-49,629	-19,623
Depreciation	-385,000	-367,000	-386,077	-361,488	-50,000	-50,618	-73,246
Amortisation - Right-of-use Assets			-29,880	-47,286		0	0
Finance Costs			-51,321	-33,914		0	0
Operating profit/(loss) after Interest, Depreciation and Amortisation	760,000	375,000	228,265	-27,123	0	24,258	-65,388

Profit and Loss Notes

1. A18 revenue is derived across several main income streams - Bar, Memberships, Restaurant, Cafe and Sailing.
2. Current (YTD) and historical income and expenses
 - o Most of the business is self generated through a strong membership base (approx 3,700) and their guests, plus additional traffic in the area, both to Double Bay precinct and via the ferry wharf (under works at the moment, but due for completion in December 2023).
 - o Bar, membership, restaurant and cafe purchases account for approx 84% of total revenues, sailing sponsorships account for approx 16% of total revenues
 - o Bar and restaurant and café offerings are well priced for the target market, and we continue to see strong demand
 - o Memberships are actively promoted to visitors, members' guests, and local traffic, and has resulted in increased revenues in this part of the business. We also offer a 10 year membership, which is an additional strong cashflow stream when it comes due (2030)
 - o Members / membership base is very important to the board and the club, and is often central to our decision making, and something we actively nurture and continue to develop
 - o YTD income across all cost centres are on track, and close to our internal budget.
 - o YTD financial performance is despite the headwinds of wharf construction, council cul de sac and road works, and some macro economic reasons such as interest rate rises cutting into some discretionary spending.
 - o Maintaining and improving current incomes – management is constantly active within each revenue section - Bar, Memberships, Restaurant, Cafe and Sailing, and continue promoting our facilities through several mediums, including our weekly mail outs to approx 6,100 recipients
 - o Staff number approx 17, with very good retention rates, who continue to improve our service and promote the club offerings

- o Board and management have overseen consistent income growth over many years through most cost centres, with the exception of covid effected years.
- o Covid: 2020, 21, 22, 23 financial years were covid effected

3. Projections

- o We have been forecasting our own budgets at A18's for close to 10 years, and our projected incomes and financial results from our budgets have been historically accurate. We constructively criticise and review our performance to improve. The club's accountant is also part of this process
- o We actively track, analyse and account for the business performance more granularly, across these 5 x main cost centres.
- o We review our income and expenses, in some parts of the business, on a daily, weekly and monthly basis, and conduct an annual budget review to forecast our income and expenses for the following financial year (including sailing budgets).
- o This practice will continue, whether in a singular or multiple entity
- o Expected Revenues with Amalgamation comes from a lift in SFS Membership, Bar Trade, Management Agreement Performance and Rentals at market value (Pattons).

4. Future income and growth

- o Current and future demand - we have a high level of enquiry for functions which we do not have the capacity for in our current configuration. This is in addition to our current trade.
- o Future capital works – looking to increase capacity
- o Future expenses and fixed costs - as always, we have allowed for an incremental increase in expenses

Balance Sheet

Balance Sheet	Amal 2025	A18s 2023	A18s 2022	SFS 2023	SFS 2022
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	1,270,774	1,188,830	883,305	81,944	18,911
Trade and other receivables	104,484	90,152	37,983	14,332	97,110
Inventories	57,071	36,576	37,423	20,495	27,228
Other assets	107,031	100,071	109,414	6,960	469
TOTAL CURRENT ASSETS	1,539,360	1,415,629	1,068,125	123,731	143,718
NON-CURRENT ASSETS					
Right-of-use assets	949,441	625,126	822,082	324,315	269,315
Property, plant and equipment	5,305,987	4,245,410	3,814,584	1,060,577	944,531
Investments	5,614,000	0	0	5,614,000	5,614,000
TOTAL NON-CURRENT ASSETS	11,869,428	4,870,536	4,636,666	6,998,892	6,827,846
TOTAL ASSETS	13,408,788	6,286,165	5,704,791	7,122,623	6,971,564
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	1,028,402	998,420	869,371	29,982	179,657
Lease/Tax liabilities	35,710	32,360	25,803	3,350	-
Provisions	9,897	9,520	6,080	377	2,885

TOTAL CURRENT LIABILITIES	1,074,009	1,040,300	901,254	33,709	182,542
NON-CURRENT LIABILITIES					
Trade and other payables	595,545	595,545	663,470	0	-
Financial liabilities	1,310,024	511,989	73,020	798,035	522,401
Lease liabilities	592,766	592,766	796,279		
TOTAL NON-CURRENT LIABILITIES	2,498,335	1,700,300	1,532,769	798,035	522,401
TOTAL LIABILITIES	3,572,344	2,740,600	2,434,023	831,744	704,943
NET ASSETS	9,836,444	3,545,565	3,270,768	6,290,879	6,266,621
EQUITY					
Accumulated Funds	935,698	935,698	660,901		
Reserves	8,241,554	2,609,867	2,609,867	5,631,687	5,631,687
Retained Earnings	659,192			659,192	634,934
TOTAL EQUITY	9,836,444	3,545,565	3,270,768	6,290,879	6,266,621

Assets and liabilities / balance sheet Notes

1. A18's own the building, but not the land. While the balance sheet shows a market value for the building, this is unlikely to be realised by the club (which also applies to the SFS Clubhouse)
2. Lease - renewing the A18's leasehold is a process we must go through every 25 years. Our current lease was a 25 year term and expires in 2028. We have a strong historical record, pay commercial rent, never been in arrears or default, and have a good working relationship with

Dept of Transport NSW as well as Woollahra Council. Though we cannot control future government policy, do not anticipate any issues.

3. The Amalgamated Balance Sheet is a sum of the FY2023 positions

Capital works

1. There are several capital works items in the pipeline, for the purpose of strengthening and increasing our revenues, already budgeted to fund with our cash and loan facilities if required. These include:
 - o Deck extension, deck conversion to 'all weather' use
 - o Internal renovation of the old poker machine / smoking area to a dining room / function facility (this will also be multi purpose) – both will increase capacity for the club.
 - o Kitchen refurbish and reconfiguration
 - o Potential upstairs reconfiguration and additional rooms
2. We have completed such works successfully in the past, (deck, café, refurb etc) as we add the income back to the club. We are mindful of not having large debts and higher risks
3. Some of these plans and approvals take years, with the current pipeline advanced
4. We have control over commencement dates and funding

Cash Flow

	A18s 2023	A18s 2022	SFS 2023	SFS 2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	3,575,565	3,012,472	1,243,059	1,192,620
Payments to suppliers and employees	-2,887,019	-2,542,001	-1,270,586	-994,568
COVID-19 Government Support	-	57,960		
Other Receipts			41,705	56,269
Finance costs and interest paid	-54,545	-37,385	-55,807	-23,488
Interest received	2,926	40	161	105
Net cash generated from operating activities	636,927	491,086	-41,468	230,938
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for property, plant and equipment	-865,371	-616,109	-173,639	-690,003
Proceeds from disposal of plant and equipment	95,000	88,617		
Net cash used in investing activities	-770,371	-527,492	-173,639	-690,003
CASH FLOWS FROM FINANCING				

ACTIVITIES				
Proceeds from borrowings			352,160	416,450
Increase/(decrease) in borrowings	438,969	51,333	-76,526	-51,657
Net cash used in financing activities	438,969	51,333	275,634	364,793
Net increase in cash held	305,525	14,927	60,527	-94,272
Cash at the beginning of the financial year	883,305	868,378	26,518	120,790
Cash at the end of the financial year	1,188,830	883,305	87,045	26,518

Cash flow Notes

1. In summary, the Bar, Memberships, Restaurant, Cafe are profitable and contribute approximately \$400k to sailing annually on top of the approx \$500k of sponsorship
- 2.
3. The profit from the clubs trading always goes into the sailing, and any capital works on the club (R&M is included), as well as any principle debt reduction if required

Debt facilities

1. A18's is debt neutral. There is 2 x loan facilities with ANZ, one is 0 debt, and has a \$480,000 limit (ie available) the other is \$480,000 limit, but is offset by \$480,000 cash in the bank. We have access to approximately \$1,000,000 in bank approved lending limits, should we need to access this for our growth.
2. Borrowing capacity – our ability to borrow remains strong, in spite of current high interest rates, and sensitised rates the banks use for assessment.

Membership

Memberships as at 31 October 2023

	A18	SFS
Honorary Members	3	
Sailing Members	63	65
Gold	1981	
Silver/Social	776	260
10 year Members	583	
Other (life, foundation, Members 50 Years)	106	53
	<u>3,449</u>	<u>378</u>

Summary

A18 has a strong track record in operating our venue across Bar, Memberships, Restaurant, Cafe and Sailing bar

We expect continued strong demand for our offering

The club has a strong cash / net debt position, and strong borrowing capacity

We continually attract the best sailors, and own and operate a fleet of boats at a very high standard