AUSTRALIAN 18 FOOTERS LEAGUE LTD

AND

SYDNEY FLYING SQUADRON LIMITED

REVIEW OF BUSINESS PLAN

Prepared by
Australian 18 Footers League Ltd
in relation to a
proposed merger

2 June 2024

Prepared by:
Geoff Davis
Consultant
BCR Advisory

SUMMARY

1 The Business Case forecasts operating profit before interest, depreciation and amortisation of $1,011,000. My calculations, imply an aspirational result of $998,900.

2 Operating profit is forecast in the Business Case at $311,000, compared to my calculation of $297,800.

3 I have prepared calculations based on alternative scenarios, contemplating less optimistic business conditions. Those circumstances will obviously drive lower profits.

4 Assuming different projected revenue growth, estimates for 2025 are summarised as follows:

5

Scenario	Revenue growth	Amalgamated
Conservative	7.5%	$185,000
Midstream	20.0%	$236,900
Aspirational	30.0%	$297,800

6 Overall, The Business Case's assumptions appear reasonable.

Whilst the effect of future economic circumstances cannot be predicted with certainty, consideration has been given to how the merged facility will operate, where cost savings will result and where key expenditures need to continue.

7 This report focusses on revenue and profitability aspects of the proposed amalgamated business.

Given that the amalgamated entity is predicted to continue trading profitably, I have not undertaken additional detailed examination of the clubs' balance sheets.

8 I note that audited financial statements for both clubs show they have significant equity. SFS's investment in Pattons is valued at $5.6 million (we value from $3 million in 2022). A18s likewise reports a healthy balance sheet, with assets of $6.28 million compared to liabilities of $3.55 million (2023).

9 The business case includes statements of cash flows for both A18s and SFS. I have not been able to agree these to the published financial results and therefore have disregarded them. However, I note that the businesses operate largely retail based trading and therefore have minimal accounts receivable.

10 I draw the reader's attention to the observations at page 16 of the Business Case, regarding allocation of surplus cash flow (always allocated to sailing) and debt facilities for Australian 18's (debt neutral).

11 This analysis specifically does not touch on the other non-financial arguments which may be raised in favour of or against amalgamating the clubs. Club members may decide on a course of action based on reasonable considerations which are completely outside the financial aspects of the proposal.

12 I understand that both clubs are in compliance with their obligations to the ATO and OSR regarding reporting and payment of GST, PAYG and relevant state taxes. I further understand they are in compliance with relevant legislation regarding provision for and payment of employee entitlements including but not limited to leave entitlements and superannuation.

I understand that both clubs are in compliance with any conditions imposed on them by their banks and draw the reader's attention to the notes in their respective financial statements regarding securities given in respect of borrowings

CONTENTS

ABBREVIATIONS / DEFINITIONS

Term	Definition / Description
ATO	Australian Taxation Office
H18	Historical 18 footer, sailed exclusively at the Sydney Flying Squadron.
Modern 18	Current technology and design 18 Footer, sailed at Australian 18's.
The Companies **A18's** **Or** Australian 18's	Australian 18 Footers League Ltd ABN 46 001 071 558 Double Bay
SFS **Or** **Sydney Flying Squadron** **(collectively, "the Clubs")**	Sydney Flying Squadron Limited ABN 70 000 487 230 Kirribilli
This Business Case	***"Amalgamated Sydney Flying Squadron/Australian 18 Footers Business Case"*** dated 9 May 2024
OSR	Office of State Revenue (NSW)
Registered Clubs Act	Registered Clubs Act 1976 (NSW).

ANNEXURES

<u>Annexure</u>	<u>Description</u>
A	Copy of Business Case *"Amalgamated Sydney Flying in/Australian 18 Footers Business Case"*
B	Australian 18's Financial Report for the year ended 30 June 2023
C	Sydney Flying Squadron Annual Report for the year ended 31 May 2022

DISCLAIMER

In preparing this report, I have relied on the Business Case and supporting information such as spreadsheet calculations. I have no reason to doubt the accuracy of the information provided or contained in this report and have endeavoured to determine the accuracy or otherwise of the information provided. However, I am unable to attest to its accuracy, completeness or reliability. I reserve the right to alter my opinions or conclusions should the underlying data prove to be inaccurate or materially change after the date of this report.

In considering and formulating my recommendations and opinions, I have necessarily relied on the forecasts and other information provided to me.

The forecasts and estimates are subject to change as further information comes to hand. Therefore, note that the Clubs' performance, could differ from that envisaged in the Business Case and considered in this report.

The reader, in forming their own opinion, should consider the contents of this report in the context of the above qualification.

1.0 Instructions

I am instructed that a proposal has been formulated for the amalgamation of two sailing clubs based on Sydney Harbour, being the Australian 18 Footers League Ltd and Sydney Flying Squadron Limited.

I have been requested to review and appraise the reasonableness of the business plan and operation model, including the outline financial information included in the document styled **"Amalgamated Sydney Flying Squadron/Australian 18 Footers Business Case"** dated 9 May 2024 ('Business Case').

I have not been requested to provide an opinion on other matters concerning the contemplated amalgamation (including matters such as club constitutional matters, local council approvals and zonings) and thus expressly do not provide the same, except where I specifically state otherwise.

I have not examined the clubs' premises or the SFS slipway and associated infrastructure operated through its wholly-owned Pattons Slipways Pty Ltd subsidiary.

I have been requested to submit my report to the Board of Directors of the Sydney Flying Squadron.

2.0 Qualifications

2.1 I am a consultant to BCR Advisory, a specialist business reconstruction, business consulting and insolvency firm.

2.2 I hold a Bachelor of Economics Degree (Majoring in Economics and Accounting) from the University of Sydney, where I graduated in 1982.

2.3 I was admitted as a Chartered Accountant in 1984.

2.4 I am Registered Liquidator with the Australian Securities and Investments Commission.

2.5 For the past 20 years, I have practiced in the areas of business consulting and reconstruction, corporate insolvency and litigation support. During this time, I have been involved in many complex administrations requiring detailed investigations. I have prepared many reports in relation to business reorganisations and litigation proceedings.

3.0 Documentation Provided

I have been provided with the following documents:

3.1 Document titled ***"Amalgamated Sydney Flying Squadron/Australian 18 Footers Business Case"*** dated 9 May 2024 ('Business Case').

3.2 Excel spreadsheet entitled "**`18s Amalgamated Budget 2025 SFS.xlsx`**", comprising summary 2024_25 forecast and SFS 24_25 forecasts.

The spreadsheet workbook summarises actual financial performance for the 2022 and 2023 financial years and the 2024 year to date. It includes calculations of expected revenues and expenses for the complete 2024 financial year and the following 2025, the additional data contemplating results on the assumption that the proposed amalgamation proceeds.

3.3 I have also accessed the following from the respective club's websites:

Australian 18s

- Annual Report for the year ended 30 June 2023
- Annual Report for the year ended 30 June 2022
- Annual Report for the year ended 30 June 2021

Sydney Flying Squadron

- Annual Report for the year ended 30 June 2022
- Annual Report for the year ended 30 June 2021

4.0 BACKGROUND

I am advised that discussions have been held between Australian 18's and SFS for several years in relation to the possible amalgamation of the clubs. The rationale for an amalgamation may be summarised as:

1. Common and overlapping history.

2. Common goals and a similar place in the broader sailing competition market.

3. Fractionalisation of the sport of sailing. New boat types and classes have emerged over time. Interest in the existing 18 footers (and their smaller 16, 14 and 12 foot brethren), as well as other sailing classes, has consequentially been diluted. This is reflected in fewer regularly competing boats and discontinuation of racing at some locations. Marketing opportunities to potential spectators and financial supporters have been likewise affected over recent decades.

4. Increased costs and complexity of boats. Whereas boats were previously built with timber and plywood, the emergence of new, but more expensive fibreglass and carbon fibre has taken boat construction and maintenance away from the owner/builder. Modern boats and their rigs now require more specialist skills for appropriate maintenance. The historical 18s sailed by SFS also require skills beyond home handyman level, notwithstanding their construction from timber.

The treatment for these influences has driven consideration of merging the clubs. The intention has been to provide a stronger financial base for the 18 footers sailing to be conducted and marketed, with better resilience for the longer term.

Although described as an amalgamation, it appears that A18s would become the "senior" partner (for want of a better term). This reflects its substantially stronger revenue and profitability over the recent past.

I am aware that support for amalgamation is not universal amongst the SFS membership. Correspondence has been issued which promotes an alternative course – that is for SFS to continue as a standalone club. I have not been requested, and I do not propose to comment on the alternative plans for the SFS.

Ultimately, a decision on whether to merge and if so on what basis, rests with the respective clubs' membership.

A business plan has been developed by the clubs' management and directors, entitled ***"Amalgamated Sydney Flying Squadron/18 Footers Business Case".*** A copy has been provided to me. It incorporates data on the financial performance of both clubs from July 2021 (i.e. financial year ended 30 June 2022 to June 2023[1]. It also includes projected amalgamated data, predicated on the assumption that the amalgamation proceeds. The amalgamated data uses financial 2024 data as a baseline, projecting likely combined revenues, expenses and results for the 2024/25 financial year. It does not attempt to project combined results further into the future.

[1] Note that SFS operates on a May year end. The financial models provided to me include adjustments to bring each club's data into line where relevant.

5.0 CLUB BACKGROUND

For perspective, I have summarised relevant aspects of each club's background and *Raison d'être* below.

5.1 Australian 18s

Australian 18s races a fleet of 18 foot skiffs from its clubhouse on Double Bay on Sydney harbour's southern shore. The fleet is the current modern design, with approximately 20 boats operating with significant club assistance and oversight. These 18 footers are the most modern 18s sailed, being a culmination of the progression of this class over a history extending for more than 100 years.

A18s' shoreside facilities include bar, restaurant, café and function facilities. It does not provide poker machine or other gaming services.

For the financial year ended 30 June 2023, the A18s club generated revenue of $3.69 million and a profit of $274,800.

5.2 Sydney Flying Squadron

The SFS was founded in 1891 and is the original home of Sydney Harbour sailing skiffs. Its clubhouse is at Careening Cove, close to Kirribilli on Sydney Harbour's northern shore.

After a long history sailing 18 footers and other classes, SFS now focuses on "historical" 18s - replicas of actual boats which sailed in the years up to the 1940's. They are built to traditional plans, including timber hulls and masts. They represent a completely different sailing and spectator experience to that provided by the modern 18's sailed from Double Bay.

Like the Australian 18s, the SFS also operates entertainment facilities, including a restaurant and bar. It does not provide poker machine or other gaming services.

SFS has significant shoreside facilities in the form of a slipway and associated infrastructure. A development application has been lodged with the local council for significant work in relation to proposed, hard stand, slipway, boat, lifting crane and other structures which are considered necessary to enable this facility to remain viable.

The amalgamation proposal does not of itself affect the slipway (except insofar as funds may be more or less available depending on what course the clubs take).

Additionally, the club supports 12 foot skiffs – the current modern interpretation of the 12 footer (as distinct from the historically-true 18s).

For the financial year ended 30 June 2023, it generated revenue from all sources of $1.06 million and a profit of $24,300.[2]

6.0 AMALGAMATION BUSINESS PLAN

6.1 General comments

The key elements of the clubs' businesses are:

[2] SFS data taken from Amalgamation Business Case. Audited financial report for 31 May 2023 has not been provided to me.

- Bar, restaurant, café, function Centre and related entertainment facilities. These can be considered the revenue generators for each club.

- Support for sailing racing. In the case of A18s, this is solely 18 foot skiffs. In the case of SFS, it comprises historical 18 footers and 12 foot skiffs.

Both clubs experienced difficult trading conditions during the Covid 19 pandemic, including government restrictions on people's movements and various trading businesses. Both clubs received assistance from government programs to mitigate the effects of these restrictions. The effects on SFS in particular are illustrated in the following sections of this report.

From a trading perspective, the amalgamation proposal is based on the following ideas, which are relevant to assessment of the financial forecasts:

- Organised sailing (racing) is competing in an increasingly fractured sporting and trading environment.

- 18 foot skiffs, both historical or modern designs, are difficult boats to sail. They require a high skill set and greater commitment from the crew than most other sailing boats. Recruitment of suitable competitors is an ongoing challenge for both clubs.

- Even though both A18s and SFS have mechanisms to assist with sailing costs, they are expensive boats to maintain compared to other simpler, lower performance boats.

- Sailing may be considered a marketing activity for the clubs. This is illustrated by the structure now employed by Australian 18s, which moved boat ownership to the club, changing the crew's obligation to that of competitors, rather than self-funded and self-resourced campaigners.[3]

- The clubs are also competing for entertainment dollars. Entertainment, bars, restaurants, spectator ferries and the like, are essential to providing the financial support for the sailing. Myriad such options compete for business within the Double Bay and Kirribilli areas.

In the face of the above, the perceived benefits of an amalgamation are essentially:

- Combining the A18s strengths of operational stability, greater member numbers, prominent harbourside location and a substantial modern fleet, with the SFS' unique product (historical 18 footers) and a strong balance sheet underpinned by the Pattens slipway facility.[4]

- It may improve the offer to members by providing them with mutual access to each venue.

- Economies of scale, resulting in reduction in back-office administration costs, improved purchasing power and thus lower input costs.

- In a complex and competitive environment, greater financial weight and pooled resources favour the larger competitor. This is true of many industries. A smaller competitor may outfox the larger one, but it generally achieves this by developing a new market niche (avoiding being a direct competitor to the dominant industry player) or by focusing on providing a unique product or service. Well known examples include industries such as confectionery (e.g Haigs and Darrell Lea, compared to the dominant international players), picture theatres (e.g. Roseville

[3] Australian 18s' website includes specific information regarding this structure, providing some guidance on how potential competitors can become involved and have a scheme operates.

[4] Note that SFS records borrowings of $522,401, secured by first-ranking registered equitable mortgages given by Sydney Flying Squadron and Pattons and a first registered real property mortgage over 62 Willoughby Street, Kirribilli 2061.

and Cremorne cinemas avoid direct competition with the major cinema companies) and many smaller pubs and bars.

- The relevance for A18s and SFS is that they are competing against other venues and a strong business is a key plank in being successful in that regard.

6.2 Australian 18s

The business plan envisages that A18s will continue through the 2024-25 financial year with little change to its current approach. No change to the sailing program is proposed. Programmed capital works will continue.

The business is currently trading profitably and thus is expected to continue to do so.

6.2 Sydney Flying Squadron

The business plan envisages that the sailing program will continue in its current format.

Changes are envisaged in the following areas:

1. Clubhouse catering and management.

2. Membership. Deficiencies have been identified in compliance with various aspects of New South Wales Registered club legislation. The plan envisages corrective action to bring the club back into compliance with the Registered Clubs Act.

3. Pattons slipway. The plan outlines specific steps (page 2), which are expected to be undertaken in relation to this facility.

7.0 PROJECTIONS

7.1 Operational Model

I have reviewed the Business Case. In my opinion, the tabulated assessment of likely risks and mitigation of the same, are reasonable.

My comments on the non-financial aspects of the Business Case (broadly, pages 1 to 4) are:

1. SFS directors and management should act immediately to address the lack of compliance with the Registered Clubs Act regarding access to various parts of the premises, vetting and signing in of visitors and general compliance with the legislation. If an amalgamation goes ahead, this issue pertains to the overall business.

   In my opinion, it should be addressed a matter of urgency.

2. It is a reasonable assertion that combining A18s and SFS sailing activities should benefit both venues and not necessarily be detrimental to either.

3. It seems reasonable to use A18s' track record and existing arrangements to assist in improving the catering arrangements currently in place at SFS.

4. SFS' Pattons slipway will clearly require significant capital investment over the foreseeable future. The income stream from this business is not included in the forward projections, the expectation being that the funds will be required for those capital works.

Some downside risk should be considered in relation to the proposed improvements and redevelopment of the slipway and possible construction of either hard stand or floating dock. I have not done extensive research into local community attitudes to these facilities. However, it may be instructive to consider the local resistance which emerged in Berrys Bay to the proposed expansion, including a floating dock, of the Noakes facility there.

5. Consideration of a sale or long-term lease to The Ensemble Theatre should be treated as the last throw of the dice. I accept that, noting the bank valuation of patterns ($5.6 million), such a transaction could generate significant cash flow. However, once the asset is sold, it obviously is out of the club's hands.

7.2 Financial Tables

I have also reviewed the financial projections included in the business case and the spreadsheet of calculations behind those projections. I have taken a slightly different view on the forecasts, primarily in relation to:

1. The percentage improvement which may eventuate on a best-case scenario.

2. Consideration of the outcome for the combined business if the aspirational forecasts are not achieved.

I have therefore prepared alternative views which may be considered as "conservative" and "midstream".

I do not propose here to recount the minutiae of comments made in the business case (pages 7 and following). In the main, the assumptions made appear to be reasonable and have picked up the key areas of business and key risks (e.g. wharf construction, interaction with local councils, Pattons slipway, etc).

My comments in the financial aspects of the business case document are:

3. I have not been requested to and have not undertaken a review of either club's internal processes regarding their financial accounting, budgeting and management reporting.

4. As noted at item 2 above, I have contemplated alternative scenarios that envisage harsher business environments than are broadly contemplated in page 8 of the Business Case.

5. With respect to SFS, item 3 (page 9) contemplates an improvement in membership numbers and resulting bar revenue increase of 20%. Again, I believe it prudent to also contemplate revenue increases which are less aspirational.

6. I note the observation that the catering income for SFS includes rent which is well under market value. I assume that any correction to this will not be achieved overnight. However, there is clearly benefit to the club in addressing an arrangement which effectively passes the profits to the contractor, *ipso facto* at the club's expense.

7. The Business Case envisages bar revenue increasing at 30% for the amalgamated business, in line with a projected membership increase. I have included alternatives based on 20% and 7.5% bases.

8. Page 10 includes an expectation that overall insurance cost is expected to be reduced. It is true that some specific savings will be expected, because insurance would be taken out by one entity, covering one group of directors with consequential reduction in the insurance metrics.

However, insurance costs have been increasing fairly aggressively and underwriters have been prone to imposing more and difficult limits on cover offered.

9. The Pattons management fee income has been removed from the SFS forecast. As noted above, this is a prudent move for an asset which clearly has significant capital needs, but also greater intrinsic risk because of its place on the waterfront in a key, highly visible, area of Sydney Harbour.

10. The Business Case (item 6, page 10) forecasts operating profit before interest, depreciation and amortisation of $1,011,000. My calculations, which are based on somewhat less optimistic cost assumptions, imply an aspirational result of $998,100. Similarly, operating profit is forecast in the business case at $311,000, compared to my calculation of $297,800.

8.0 FINANCIAL PROJECTIONS – ALTERNATIVE SCENARIOS

8.1 Sydney Flying Squadron

Below is a summary of the key financial information for SFS, using published audited financial reports. I have included financial years 2020 and 2021 to broaden the dataset because the Covid 19 lockdown years were so unusual. Midpoint 2025 projection numbers for standalone and amalgamated scenarios are also shown.

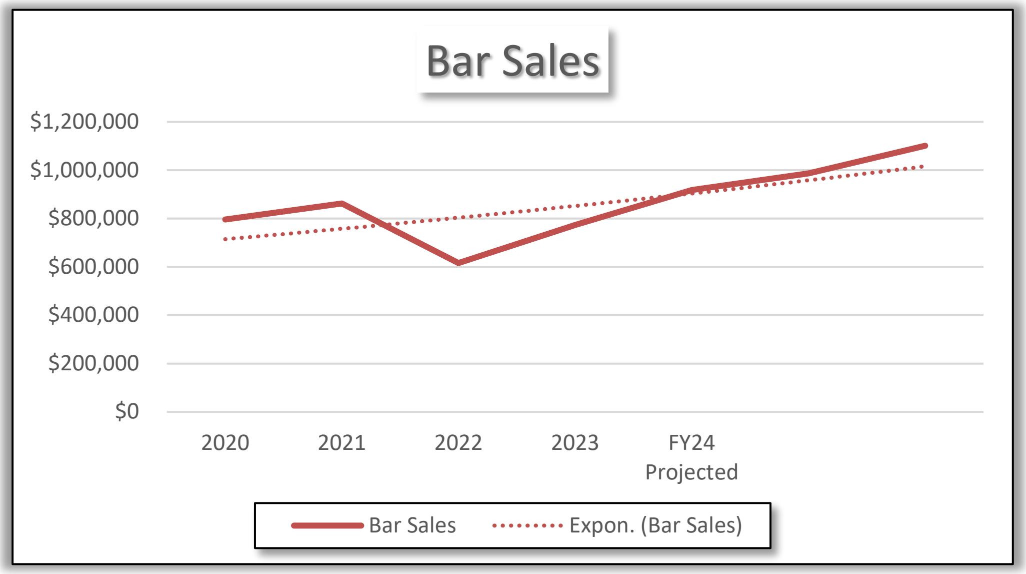
Profit and Loss

Sydney Flying Squadron Ltd						SFS Forecast	Amalgamated
	1	2	3	4	6	8	11
Account	May ***2020***	May ***2021***	May ***2022***	May ***2023***	FULL YEAR **FY24 Projected**	**24/25 Forecast Mid**	**24/25 Forecast Mid**
Total Trading Income	*795,657*	*900,623*	*965,471*	*1,055,872*	1,183,199	1,399,993	1,360,357
Total Cost of Sales	*252,998*	*541,893*	*426,614*	*516,708*	*593,124*	*699,012*	*344,301*
Gross Profit	*542,659*	*358,730*	*538,857*	*539,164*	*590,076*	*700,980*	*1,016,056*
Bar Purchases : Bar sales %			65.6%	74.4%	68.7%	68.7%	68.7%
COGS : Total revenue %	68.2%	37.1%	30.7%	33.2%	35.4%	36.5%	68.7%
Total Other Income	*392,511*	*397,555*	*41,856*	*0*	*0*	*0*	*0*
	935,170	*756,285*	*580,713*				
Total Operating Expenses	*809,452*	*710,374*	*603,245*	*514,906*	*593,533*	*660,631*	*902,216*
Net Profit	*125,718*	*45,911*	*(22,532)*	*24,258*	*(3,458)*	*40,349*	*113,840*

Total trading income for 2021 & 2022 includes government support related to the Covid 19 pandemic. This assisted revenue, but it is evident that it did not guarantee overall profitable trading[5].

Based on the past performance (and accepting the obvious rider that the Covid years should be treated with caution), I have graphed bar revenue on the following page. I have included a trendline to highlight the degree to which revenue has improved further, with improvement expecting to continue into 2024-2025.

5 The financial year to May 2020 was almost complete by the time significant government restrictions were imposed.



The picture is less encouraging in relation to the club's overall operating profit (loss) during this period.

It earned a healthy profit in 2020 and a smaller one in 2021. Results since then have been less encouraging. Based on year-to-date numbers (as at March 2024), and overall loss is predicted for the full 2023 – 24 financial year.

These more recent results underscore the expected SFS outcome for both 2024 and 2025 financial years.

8.2 Stress testing the numbers

As noted above, I have relied on the financial information provided to me in the Business Case and the spreadsheets on which the Business Case tables are based.

Some differences were identified between the published financial data and that included in the Business Case. Where there is a difference, I have relied on the published (audited) financial results.

The Business Case spreadsheets incorporate several assumptions. Key assumptions include:

Revenue / Expense Category	**Comments**
Bar Sales and membership fee income	Business Case contemplates an increase of 30%. I have also calculated alternative outcomes, based on 7.5% (pessimistic/Conservative) and 20% (midstream).
Flying Bear catering income	The Business Case assumes an 8% charge on Flying Bear and Foys revenue. It is fixed at $240,000 for 2025 (amalgamated). I have recast this revenue calculation, to enable it to vary with assumed optimistic/pessimistic/midstream projections as I expect those income streams would likely be affected by the same conditions driving the overall business' performance.

Revenue / Expense Category	Comments
Expenses generally[6]	Most, but not all expenses are assumed to increase by 7.5% in the 2025 financial year. I have broadened the expected price increase to include all expense items, except those specifically identified in the original model for unique treatment. These include: • Marketing – set at $20,000 for 2024 and $24,000 for the amalgamated business. • Sailing promotion – the business case allocation additional $50,000 for H18 boat maintenance. • Wages – these are aligned with the A18s bar model (23%), plus management cost. • Some expenses will not be incurred by SFS post-amalgamation. These include accounting and bookkeeping costs, and audit fees and advertising which would only be required for the entire business and are already accounted for in the A18s projections. These expense savings are key to the economies of scale which the amalgamated 2-site business will reap after initial changeover costs are incurred.

8.3 Tabulation of the scenarios

I only have been provided with summary information for A18s, which does not include the detail available for SFS. Consequently, it would be difficult to arrive at meaningful other scenario projections for A18s.

My calculation of conservative/midpoint/aspirational revenues and expenses has been applied to SFS only. Accordingly, it is not possible for you for me to produce meaningful amalgamated numbers for the additional pessimistic and midstream overall scenarios.

A summary of the key numbers for SFS, under all 3 scenarios, is set out on the following page.

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6 The business case appears to assume a number of expenses (eg telephone, internet, printing) will be picked up by A18s and thus do not need to be accounted for by SFS. I have included those in SFS's forecasts because I would expect the SFS business unit to be back charged for its appropriate portion of those expenses.

SFS Profit and Loss	Conservative Amalgamated - Facility	Midstream Amalgamated - Facility	Aspirational Amalgamated - Facility
Revenue	1,233,777	1,360,357	1,473,514
Bar trading expenses	(308,437)	(344,301)	(372,993)
Corporate expenses	(663,642)	(703,153)	(726,688)
Sailing expenses	(64,784)	(64,715)	(64,715)
	(1,036,862)	(1,112,170)	(1,164,397)
Operating profit before IDA	**196,915**	**248,188**	**309,117**
Interest paid/Finance Costs	(70,488)	(70,162)	(70,162)
Depreciation	(65,284)	(64,982)	(64,982)
	(135,772)	(135,143)	(135,143)
Operating profit/(loss) after IDA	**61,143**	**113,044**	**173,973**

These scenarios are based on revenues increasing at 7.5% (Conservative), 20% (midstream), and 30% (aspirational), the latter being as per the Business Case. Some changes have been made to predicted expenses, as described at Section 9.2 of this report.

To illustrate the contribution of SFS performance on the overall business, assuming no change in the A18s predictions from that included in the original business case, I have prepared below, a summary table which combines these 3 scenarios with the data from A18s.

SFS	Conservative		Midstream		Aspirational	
Profit and Loss	Amalgamated - Facility	Amalgamated - Entity	Amalgamated - Facility	Amalgamated - Entity	Amalgamated - Facility	Amalgamated - Entity
Revenue	1,233,777		1,360,357		1,473,514	
Bar trading expenses	(308,437)		(344,301)		(372,993)	
Corporate expenses	(663,642)		(703,153)		(726,688)	
Sailing expenses	(64,784)		(64,715)		(64,715)	
	(1,036,862)		(1,112,170)		(1,164,397)	
Operating profit before IDA	**196,915**	**885,941**	**248,188**	**937,214**	**309,117**	**998,143**
Interest paid/Finance	(70,488)		(70,162)		(70,162)	
Depreciation	(65,284)		(64,982)		(64,982)	
	(135,772)		(135,143)		(135,143)	
Operating profit/(loss) after IDA	**61,143**	**185,051**	**113,044**	**236,952**	**173,973**	**297,881**

Key observations are:

1. Cost savings are expected to be available by removing duplication in back-office, administrative and accounting functions.
2. Similarly, savings can be expected in external accounting work (audit), some aspects of insurance and other external services.

3. Revenues are bolstered by combining both facilities. The above 3 scenarios provide some guidance on how this may play out, depending on the extent to which the combined clubs can leverage their joint efforts.

4. Some improvement can be expected in input costs for key bar and restaurant supplies.

5. A combination of these factors is expected to move the SFS from being marginal on a worst case scenario to being solidly profitable, assuming these conditions are met. Equally, if the business cases, more optimistic predictions are satisfied, SFS is shown to contribute a good portion of the overall businesses profitable trading results. This

6. for the avoidance of doubt, the reader should be mindful that these remain predictions and the clubs are subject to the vagaries of broader economic circumstances and their local business climates.

9.0 SUMMARY

The business case provides a reasonably comprehensive assessment of the two clubs' businesses, core threats and plans for mitigating those threats.

It is reasonable to assume the combined businesses will perform at least as well as, but likely better than their combined results to date. This is because of improved economies of scale and efficiencies gained by better use of shared resources. Consequently, it is perhaps useful to view the business case as identifying the extent to which the overall performance can be improved by A18s and SFS combining their resources.

The spreadsheet calculations on which the business case rests appear to be reasonably constructed.

The calculations predict revenue growth and cost savings on a somewhat optimistic basis. To provide perspective, I have included more conservative calculations for comparison.

This analysis specifically does not touch on the other non-financial arguments which may be raised in favour of or against amalgamating the clubs. Club memberships may well decide on a course of action based on reasonable considerations which are completely outside the financial aspects of the proposal.

I understand that both clubs are in compliance with their obligations to the ATO and OSR regarding reporting and payment of GST, PAYG and relevant state taxes. I further understand they are in compliance with relevant legislation regarding provision for and payment of employee entitlements including but not limited to leave entitlements and superannuation.

I understand that both clubs are in compliance with any conditions imposed on them by their banks and draw the reader's attention to the notes in their respective financial statements regarding securities given in respect of borrowings.

Yours faithfully,

G R Davis
Consultant

BCR Advisory

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