GREGORY ANALYTICS

Business and Financial Review

The Larkspur Café Company Ltd

Five-year review, FY22 to FY26 · Three independent cafés (the third opened in FY24)

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Prepared by Simon Gregory ACA, Chartered Accountant (ICAEW) · Gregory Analytics

Illustrative example. Fictional business. The figures are invented to show the format of the report and are not drawn from any real company. Financial years end 31 March.

Executive summary

The Larkspur Café Company Ltd · Three independent cafés (the third opened in FY24)

£2.42m	8.2%	£101k	0.5x
Revenue FY26 · 20% a year since FY22	EBITDA margin FY26 (FY22: 13.1%)	Closing cash FY26 (FY22: £115k)	Net debt ÷ EBITDA FY26

The headline. Sales have grown every year, up 20% a year on average, but the business keeps less of each pound it takes: EBITDA margin has fallen from 13.1% to 8.2%. Cash is the pressure point. The third café was funded partly from cash, and closing cash fell to £24.5k in FY24, about 5 days of costs.

WHAT THE FIVE YEARS SHOW

- Revenue rose from £1.18m to £2.42m (FY22 to FY26). The third café, opened in FY24, accounts for most of the FY24 and FY25 growth.
- Staff costs rose from 31.0% to 36.8% of sales (+5.8 pts). This is the largest single cause of the lower margin.
- Cost of sales rose from 28.5% to 30.8% of sales. Prices have not kept pace with ingredient costs.
- Net profit margin is 1.9% in FY26, below the 3% to 5% typical for the sector. FY24 made a small loss.
- Bank debt is £208k against EBITDA of £198k, a comfortable 0.5x net debt to EBITDA, and interest is covered 8.6x. The borrowing itself is not the risk; the thin cash buffer is.

RECOMMENDATIONS IN BRIEF

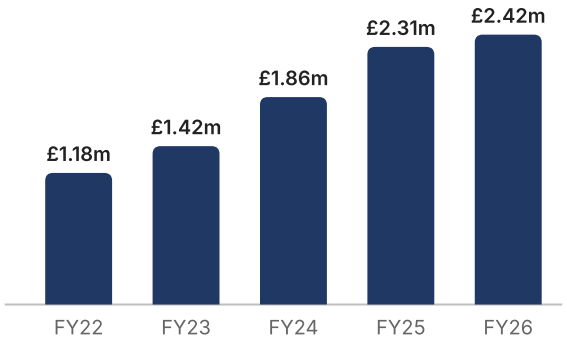
#	Action	Priority
1	Reset prices and menu mix	High
2	Match staff hours to trade	High
3	Rebuild the cash buffer	High
4	Price energy and insurance at renewal	Medium
5	Judge each café on its own results	Medium

Five years at a glance

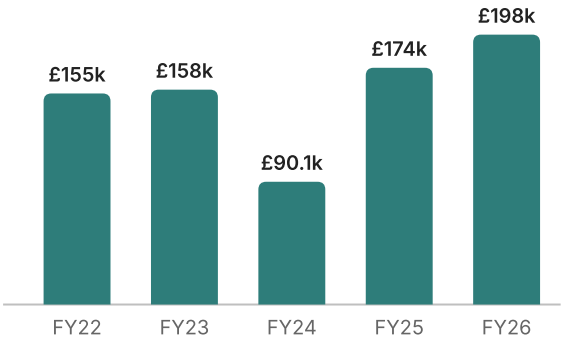
Profit and loss account, financial years ended 31 March.

£	FY22	FY23	FY24	FY25	FY26
Revenue	£1,180,000	£1,420,000	£1,860,000	£2,310,000	£2,420,000
growth		20.3%	31.0%	24.2%	4.8%
Cost of sales	(£336,300)	(£418,900)	(£585,900)	(£716,100)	(£745,360)
Gross profit	**£843,700**	**£1,001,100**	**£1,274,100**	**£1,593,900**	**£1,674,640**
gross margin	71.5%	70.5%	68.5%	69.0%	69.2%
Staff costs	(£365,800)	(£454,400)	(£651,000)	(£843,150)	(£890,560)
Rent and rates	(£135,000)	(£142,000)	(£190,000)	(£215,000)	(£220,000)
Energy	(£38,000)	(£72,000)	(£108,000)	(£92,000)	(£88,000)
Other overheads	(£150,000)	(£175,000)	(£235,000)	(£270,000)	(£278,000)
EBITDA	**£154,900**	**£157,700**	**£90,100**	**£173,750**	**£198,080**
EBITDA margin	13.1%	11.1%	4.8%	7.5%	8.2%
Depreciation	(£52,000)	(£60,000)	(£98,000)	(£112,000)	(£118,000)
Operating profit	**£102,900**	**£97,700**	**(£7,900)**	**£61,750**	**£80,080**
Interest	(£9,750)	(£8,400)	(£7,680)	(£28,560)	(£23,120)
Profit before tax	**£93,150**	**£89,300**	**(£15,580)**	**£33,190**	**£56,960**
Corporation tax	(£20,935)	(£19,915)	–	(£6,306)	(£11,344)
Profit after tax	**£72,215**	**£69,386**	**(£15,580)**	**£26,884**	**£45,616**

REVENUE



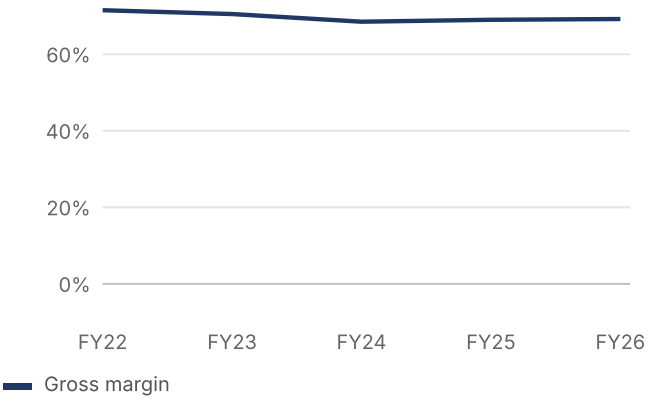
EBITDA



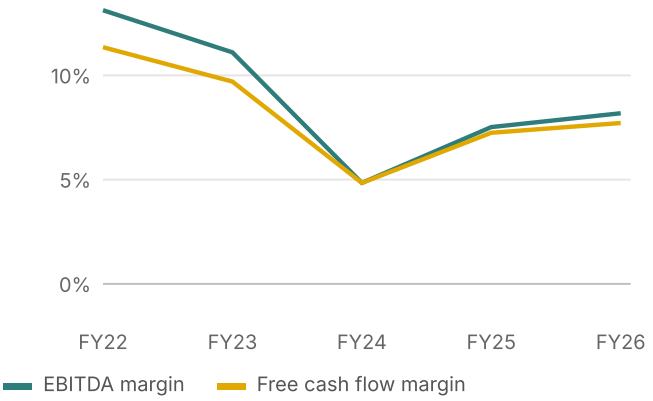
Margins and costs

Gross, EBITDA and free cash flow margins. Free cash flow here is EBITDA less corporation tax.

GROSS MARGIN



EBITDA AND FREE CASH FLOW MARGINS



WHERE EACH POUND OF REVENUE WENT

% of revenue	FY22	FY23	FY24	FY25	FY26	Change FY22 to FY26
Cost of sales	28.5%	29.5%	31.5%	31.0%	30.8%	+2.3 pts
Staff costs	31.0%	32.0%	35.0%	36.5%	36.8%	+5.8 pts
Rent and rates	11.4%	10.0%	10.2%	9.3%	9.1%	−2.3 pts
Energy	3.2%	5.1%	5.8%	4.0%	3.6%	+0.4 pts
Other overheads	12.7%	12.3%	12.6%	11.7%	11.5%	−1.2 pts
Total costs before depreciation	**86.9%**	**88.9%**	**95.2%**	**92.5%**	**91.8%**	**+4.9 pts**

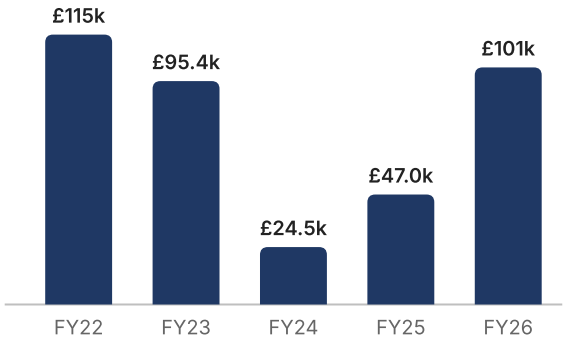
EBITDA margin moved −4.9 pts over the period. Costs have risen faster than sales. Each 1 point of margin is worth about £24.2k a year at FY26 revenue.

Cash flow and funding

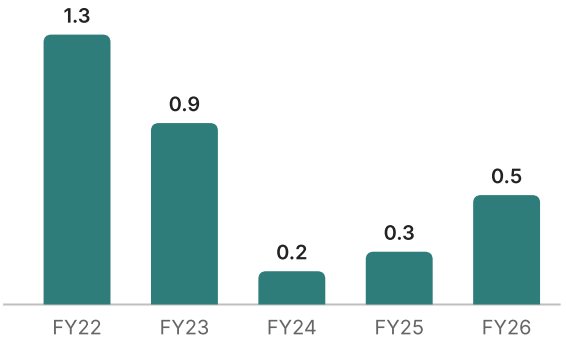
How the cash moved each year. Corporation tax is shown as paid in the year it is charged, for simplicity.

£	FY22	FY23	FY24	FY25	FY26
EBITDA	£154,900	£157,700	£90,100	£173,750	£198,080
Corporation tax paid	(£20,935)	(£19,915)	–	(£6,306)	(£11,344)
Interest paid	(£9,750)	(£8,400)	(£7,680)	(£28,560)	(£23,120)
Working capital movement	£1,042	£14,757	£26,701	£17,562	£9,660
Capital expenditure	(£60,000)	(£70,000)	(£420,000)	(£70,000)	(£55,000)
Loans drawn	–	–	£280,000	–	–
Loans repaid	(£30,000)	(£24,000)	(£40,000)	(£64,000)	(£64,000)
Dividends	(£70,000)	(£70,000)	–	–	–
Net cash movement	**(£34,743)**	**(£19,858)**	**(£70,879)**	**£22,446**	**£54,275**
Opening cash	£150,000	£115,257	£95,399	£24,520	£46,965
Closing cash	**£115,257**	**£95,399**	**£24,520**	**£46,965**	**£101,240**

CLOSING CASH



MONTHS OF COSTS COVERED BY CASH



Over five years the business made £199k profit after tax, paid £140k in dividends and spent £675k on equipment and fit-out, and cash fell by £48.8k. Loans drawn were £280k and repaid £222k.

Balance sheet and working capital

Position at 31 March each year. The balance sheet balances in every year and closing cash agrees to the cash flow on page 5.

£	FY22	FY23	FY24	FY25	FY26
Fixed assets	£268,000	£278,000	£600,000	£558,000	£495,000
Stock	£12,899	£16,067	£20,868	£25,505	£26,547
Debtors	£9,699	£11,671	£20,384	£25,315	£26,521
Cash	£115,257	£95,399	£24,520	£46,965	£101,240
Total assets	**£405,855**	**£401,138**	**£665,771**	**£655,785**	**£649,308**
Trade creditors	£68,639	£88,537	£128,750	£155,881	£167,788
Bank loans	£120,000	£96,000	£336,000	£272,000	£208,000
Equity	£217,215	£216,601	£201,021	£227,905	£273,520
Total liabilities and equity	**£405,855**	**£401,138**	**£665,771**	**£655,785**	**£649,308**

WORKING CAPITAL

Days	FY22	FY23	FY24	FY25	FY26
Debtor days	3	3	4	4	4
Stock days	14	14	13	13	13
Creditor days	38	40	42	44	46
Cash conversion days	**-21**	**-23**	**-25**	**-27**	**-29**
Cash tied up in working capital	(£46,042)	(£60,798)	(£87,499)	(£105,061)	(£114,720)

One day of debtors is worth about £6.6k of cash at FY26 revenue and one day of stock about £2.0k.

Benchmarks and returns

The ranges below are indicative figures from published guides, not a comparison with a named peer group. They are a prompt for questions, not a verdict.

Measure (FY26)	This business	Indicative range	Position	Source
Cost of sales (food, drink, packaging), % of sales	30.8%	25% to 35%	**Within range**	1
Prime cost (cost of sales plus staff), % of sales	67.6%	60% to 65%	**Above range**	1
Net profit margin	1.9%	3% to 5% (UK average about 4%)	**Below range**	1, 2
Creditor days	46	30 to 60 days	**Within range**	3
Current ratio (excluding loan instalments)	0.9	1.5 to 2.0 (comfortable)	**Below range**	3
Interest cover (EBITDA ÷ interest)	8.6x	Lenders typically require at least 2x to 4x	**Better than range**	3
Net debt ÷ EBITDA	0.5x	2x to 4x is typical for mid-sized firms	**Better than range**	3

RETURNS AND LEVERAGE

£	FY22	FY23	FY24	FY25	FY26
NOPAT (operating profit less tax)	£79,774	£75,912	(£7,900)	£50,018	£64,131
Capital invested at start of year	£215,000	£221,958	£217,202	£512,501	£452,939
Return on invested capital	**37.1%**	**34.2%**	**-3.6%**	**9.8%**	**14.2%**
Free cash flow (EBITDA less tax)	£133,965	£137,786	£90,100	£167,444	£186,736
Interest cover (EBITDA ÷ interest)	15.9x	18.8x	11.7x	6.1x	8.6x
Net debt ÷ EBITDA	0.0x	0.0x	3.5x	1.3x	0.5x

Capital invested is measured on the financing side: equity plus debt less cash. NOPAT is operating profit multiplied by one minus the effective tax rate.

Strengths, weaknesses and market

Strengths

- Sales growth of 20% a year over four years
- Little money tied up in debtors or stock (card and counter sales)
- Debt now falling: £336k in FY24 to £208k in FY26
- Repeat local custom and a third site that is now trading

Weaknesses

- EBITDA margin down 4.9 pts since FY22
- Cash of £101k is about 16 days of costs
- Current ratio of 0.9, below the 1.5 to 2.0 lenders like to see
- Staff costs rising faster than sales

Opportunities

- Review menu prices and mix to protect gross margin
- Use rotas and sales data to match staff to trade
- Grow takeaway and catering orders, which use the existing kitchen
- Renegotiate energy and insurance contracts at renewal

Threats

- Further rises in the National Living Wage and employer National Insurance
- Ingredient and energy price shocks
- Rent reviews on the three sites
- A weak spell in local footfall while cash is low

The market and competition

Independent cafés compete with national chains, supermarket cafés and takeaway coffee. Customers are sensitive to price on everyday items but pay more for quality and atmosphere, so margin is usually protected by mix (cakes, light lunches, retail) as much as by headline prices. Local rents and staff availability matter more than national trends, so each site should be judged on its own numbers.

> This page is a general commentary written for the sample. In a real review it would use the client's own competitors, local data and sector reports, with sources listed on page 10.

Recommendations

Five actions in order of value. The sums use FY26 figures and are estimates of scale, not forecasts.

#	Action	Why it matters, with the numbers	Priority
1	**Reset prices and menu mix**	Cost of sales is 30.8% against 28.5% in FY22. Returning to 29.5% of sales would add about £31.5k a year to profit.	High
2	**Match staff hours to trade**	A 1 point cut in staff costs as a share of sales is worth about £24.2k a year. Start with rotas for the two quietest weekday sessions at each site.	High
3	**Rebuild the cash buffer**	Aim for at least £185k (one month of costs) in cash before any further expansion. Cash today is £101k.	High
4	**Price energy and insurance at renewal**	Energy cost £88.0k and other overheads £278k are worth a tender. A 5% saving on both is about £18.3k a year.	Medium
5	**Judge each café on its own results**	Report sales, gross margin and staff cost by site each month so a weak site is seen early.	Medium

SUGGESTED FIRST 90 DAYS

- **Month 1:** agree the top two actions and put one owner against each.
- **Month 2:** put the monthly measures in place (margin, cash, days) and review them.
- **Month 3:** check progress against the numbers on this page and decide the next two actions.

> This review gives recommendations for management to consider. It is not a forecast, a valuation, or tax or legal advice.

Sources, scope and assumptions

WHAT THIS REVIEW COVERS

- Five years of annual accounts and management figures: profit and loss, balance sheet and cash flow.
- Trends, margins, cash, working capital and borrowing.
- Indicative sector ranges and a short market commentary.
- Recommendations, in writing. Up to 10 written follow-up questions are included.

WHAT IT DOES NOT COVER

- Tax advice, bookkeeping, audit or assurance, valuation, or a forecast.
- Calls or meetings, further questions beyond the 10, or carrying out the recommendations.

ASSUMPTIONS IN THIS SAMPLE

- The business and all figures are fictional and were built to tie out: the balance sheet balances and closing cash agrees to the cash flow.
- Corporation tax uses the UK main rates (19% to £50,000, 25% above £250,000, with marginal relief) and is shown as paid in the year charged.
- Interest is charged on the opening loan balance. Debtors, stock and creditors are derived from the days shown.

SOURCES FOR THE INDICATIVE RANGES

1. NetSuite UK, Restaurant benchmarks (food and beverage cost of sales typically 25% to 35% of turnover; prime cost 60% to 65%; UK net margin around 4%)
netsuite.co.uk/portal/uk/resource/articles/erp/restaurant-benchmarks.shtml

2. Sage, Understanding profit margins for restaurants (typical net margin 2% to 6%; UK average 4.2%; full-service 3% to 5%)
sage.com/en-gb/blog/understanding-profit-margins-for-restaurants/

3. FD Capital, Financial ratios: a UK CFO's guide (indicative gross margin by sector, debtor, creditor and stock days, current ratio, interest cover and leverage ranges)
fdcapital.co.uk/financial-ratios-a-uk-cfos-guide-to-company-performance-analysis/

The ranges come from general published guides and will differ for a particular business. A real review would add sector data matched to the client.