

The logo for JAZZODLE, featuring the word in a bold, sans-serif font. The 'O's are replaced by a stylized orange infinity symbol. In the background, there is a bar chart with seven bars of varying heights and a white line graph with a circular marker at the start, showing a fluctuating trend.

JAZZODLE

# BUSINESS REFERENCE



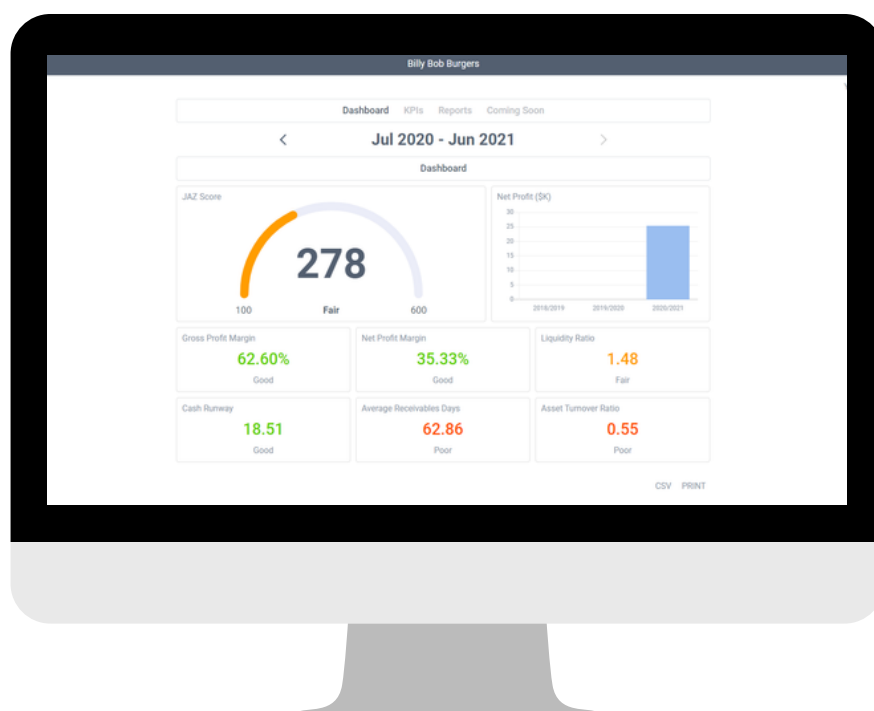
*Jazoodle: A reference guide*

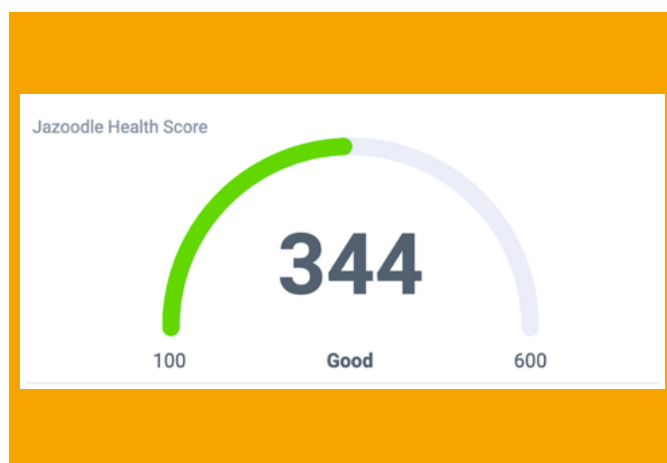
# RATIOS AND PERFORMANCE METRICS USED IN THE JAZZOODLE APP

This guide is meant to be a quick reference guide to all of the ratios and indicators currently within the Jazoodle application.

As with the nature of all developments, we expect new measures and functionality to be released regularly, and as such, please visit <https://jazoodle.com/support> for the latest definitions of all metrics and indicators

The guide is set out in logical order, mirroring the numbers found in each section of the application.





# JAZZOODLE BUSINESS HEALTH SCORE

The business health score is the first place to start in assessing how your business is doing! Your score will change over time, and it is important to assess this regularly and to ensure that underlying performance trends are as you expect. The score can give you early warning of changes to the underlying success of your business. It is affected by a number of things, such as your revenues, your profit margins, your financial liabilities, amount of cash at your disposal, and the size and effectiveness of your asset base.

## WHAT DOES IT MEAN?

We recommend keeping an eye on your health score regularly, and check for any changes to the score over time. The score could be a great early indicator for you of any potential issues creeping into your business

### Scale:

**0-208** - Poor - Seek immediate professional Advice

**209-308** - Fair - Early warning - please speak with your accountant or advisor

**309-408** - Good - assess for changes

**409-508** - Very Good

**509-600** - Excellent

# PROFITABILITY MEASURES

Cash is king! But profit generates excess cash. Understanding your underlying profitability is critical to a healthy and sustainable small business. But so many more insights into underlying profitability and costs can be gleaned than in your profit and loss statement. Here we look at some underlying measures – measures that are often relative type measures.

## NET PROFIT MARGIN

**Definition Used:** Total Net Profit(Loss) as a percentage of Total Revenue

Net profit does not necessarily indicate the positive levels of cash generated by a business. However, it is a reliable time-based measure for gaining an understanding into the overall value that the business is providing to its stakeholders

**Scale:**

**Good:** Greater than 5%

**Fair:** Between 1% and 4.999%

**Poor:** Less than 1%

Net Profit Margin

34.96%

Good

## GROSS PROFIT MARGIN

**Definition Used:** Total Gross Profit as a percentage of Total Revenue

Gross Profit Margin is hugely important for understanding your revenues are in relation to your direct costs of providing your goods or services. If your gross margins are changing over time, check that you aren't excessively discounting your goods or services, or that input costs are getting out of control

**Scale:**

**Good:** greater than 49%

**Fair:** Between 30% and 49%

**Poor:** Less than 30%

Gross Profit Margin

83.44%

Good

# COGS TO EBITDA

**Definition Used:** Direct costs related to net earnings minus depreciation and other elements

COGS:EBITDA Compares the Cost of Goods Sold (COGS) in relation to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). If net margins are falling, this will partially show you if the problem is in stock purchasing, or as a result of general overhead problems. Please read in conjunction with the gross profit margin definition

**Scale:**

**Good:** Greater than 6

**Fair:** Between 3 and 6

**Poor:** Below 3

COGS to EBITDA

47.44%

Fair

# COGS TO NET PROFIT

**Definition Used:** Total direct costs as a percentage of total net profit

This ratio is as per the COGS:EBITDA measure, but with the effects of depreciation and accounting choices also taken into account. For instance, if COGS:Net Profit is falling, but Expenses:EBITDA is stable, this may indicate that depreciation expense is increasing, which in turn could either mean a capital investment program (which could be positive for the business) or change in depreciation policy (which could have a negative impact). This measure should also be assessed in conjunction with changes in other expenses, which may indicate if financing costs are increasing. For example, the Debt : Equity measure could be checked to confirm if this is the case.

**Scale:**

**Good:** Greater than 6

**Fair:** Between 3 and 6

**Poor:** Below 3

COGS to Net Profit

47.33%

Fair

# EBITDA MARGIN

**Definition Used:** Total Net profit (plus depreciation and other accounting choices) Profit as a percentage of Total Revenue

This measure, similar to standard net profit margin, diminishes the effects of accounting policies such as depreciation on margins. this could be useful if you are an asset rich company with strong depreciation and financing policies

**Scale:**

**Good:** Greater than 5%

**Fair:** Between 1% and 4.999%

**Poor:** Less than 1%

EBITDA Margin

34.88%

Good

# EARNINGS PER SHARE

**Definition Used:** Net profit earnt for every unit of owners equity (Capital + Current earnings + Retained Earnings)

EPS (Earnings Per Share) For public companies, is a measure that assesses how much revenue is earned in relation to its underlying equity capital structure. The higher the EPS, the better the general health of the business. Please note, it is not possible for Jazoodle to identify how many shares may have been issued by the company. For this reason, we assume total shareholders equity as being the sum of paid up capital, retained earnings, and current earnings. This may not be accurate, but if used consistently over time, should provide a great way of understanding underlying profit performance, relative to the amount of funds that have been invested in the business

**Scale:**

**Good:** Greater than 6

**Fair:** Between 3 and 6

**Poor:** Below 3

Earnings per Share

1.22

Poor

# PE RATIO

**Definition Used:** Total equity per total net asset then divided by net profit per unit of owner's equity

PE (Price/Earnings) Ratio Based upon the assumptions used to create the EPS measure, this calculation is also based upon a strict asset value of the business and relates to the number of shares that are assumed to have been issued, and is then related to the EPS measure outlined above.

Generally, the higher the Price/Earnings ratio the more likely it is that the company will be expected to further improve its performance in future years.

**Scale:**

**Good:** Greater than 6

**Fair:** Between 3 and 6

**Poor:** Below 3

# CASHFLOW FROM OPERATIONS

**Definition Used:** Cashflow from operations is measured by the amount of cash generated from normal operating activities of the business, and ignores cash from financing and investments

It also assesses cash collected from debtors, and paid out to creditors in the period.

# CASHFLOW TO TOTAL ASSETS

**Definition Used:** Cashflow from operating Activities compared to total Assets

The Cashflow to Total Assets indicator provides an understanding of how cash is generated relative to the asset base of the company. Generally, the higher the indicator, the more efficient the asset base of the company is in generating revenues. Generally, this should be greater than 1 – i.e. \$1 of asset generates \$1 of revenue. Please note, that Jazoodle calculates the Cash generated from operating activities only and ignores cash from financing or investing.

**Scale:**

**Good:** Greater than 5

**Fair:** Between 1 and 5

**Poor:** Less than 1

PE Ratio

0.82

Poor

Cashflow from Operations

\$74.13K

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Cashflow to Total Assets

81.93

Good

# LIQUIDITY MEASURES

Liquidity is simply a means of understanding a company's susceptibility to either current or future financial distress, and the risk profile of the business. It should be noted however that a single "safe" liquidity measure does not exist across all industries. For instance, some industries traditionally and successfully trade at low liquidity levels, whereas the same figure may be a sign of distress in another sector.

## LIQUIDITY RATIO

**Definition:** Total Current Assets (including stock) compared to Total Current Liabilities

The Liquidity Ratio gives a relative measure of current liabilities compared to current assets. Generally, you would be looking for a figure greater than 1, for instance a company has at least enough assets to cover its liabilities. However, it is very important to also understand how liquid these assets are. For instance, if all of the creditors demanded payment at the same time, how much could realistically be raised in enough time to pay them? Would this cover the liabilities? Overcoming this can be achieved by using a Quick Ratio (see above). Please also note that some industries traditionally trade on very low or high measures.

**Scale:**

**Good:** Greater than 1.5

**Fair:** Between 1 and 1.5

**Poor:** Less than 1

Liquidity Ratio

12.37

Doing Great

## QUICK RATIO

**Definition:** Total current assets (less stock) compared to total current liabilities

The Quick Ratio overcomes some of the issues with the Liquidity Ratio measure and only assesses those assets which have the potential to be liquidated quickly. This ratio ideally should not include inventories as sales of inventory rarely achieve the value that may be on the books. A figure above 1 again is considered to be acceptable. However, the higher the value, the better.

**Scale:**

**Good:** Greater than 1.5

**Fair:** Between 1 and 1.5

**Poor:** Less than 1

Quick Ratio

1.51

Good

# INTEREST COVERAGE

**Definition:** The amount of times that finance interest is covered by net operating income plus depreciation (ie free cash)

**Scale:**

**Good:** Greater than 1.5

**Fair:** Between 1 and 1.5

**Poor:** Less than 1

Interest Coverage

0

Poor

# CASH RUNWAY

**Definition:** The amount of cash at hand compared to your average monthly gross burn rate. The measure shows the number of months (or part months runway you have

Suppose that all sales stopped within your business tomorrow. How long could you remain solvent? This measure, tells you in the number of months what your cash runway is or how long you can remain solvent should no sales eventuate – such as in a Covid lockdown, or other catastrophic event.

**Scale:**

**Good:** Greater than 6

**Fair:** Between 3 and 6

**Poor:** Less than 3

Cash Runway

18.51

Good

# GROSS BURN RATE

**Definition:** The average amount of money spent on all expenses each month over the past year.

This measure tells you your average monthly outgoings spend and used in part for your cash runway calculations

Monthly Gross Burn Rate

\$8.16K

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# ASSET UTILISATION MEASURES

Overall investment returns are assessed using asset utilisation ratios. These ratios give insight into how well the company performs in generating returns from its operational activities.

## OPERATING REVENUE PER EMPLOYEE

**Definition:** Revenue per employee measures the Operating Revenue generated by each employee in your business.

Revenue per employee is a must have measure and shows you how productive your business is, or even whether it is under or over staffed. Look for changes over time using the time series graphs in your Jazoodle. Acceptable revenue per employee figures will vary by industry but aim for a figure of at least 1.5 times the average wage cost at a minimum. Jazoodle uses a figure of 175,000 as a benchmark.

**Scale:**

**Good:** Greater than \$175,000 per employee

**Fair:** Between \$100,000 and \$175,000 per employee

**Poor:** Less than \$100,000 per employee

Overhead per Employee

**\$60.85K**

Good

## OVERHEAD PER EMPLOYEE

**Definition:** The amount of expenses generated for every employee in a period.

Overhead Per Employee is a cool measure that allows you to ensure that you can assess undue wastage in your business.

**Scale:**

**Good:** Less than \$87,500 per employee

**Fair:** Between \$87,000 and \$100,000 per employee

**Poor:** Greater than \$100,000 per employee

Overhead per Employee

**\$60.85K**

Good

# NET PROFIT PER EMPLOYEE

**Definition:** The amount of total net profit earned by each employee in your business. Another measure as to how efficient your business is running. Again, check this over time and assess changes to your underlying business

**Scale:**

**Good:** Greater than \$/£ 31,500 per employee

**Fair:** Between \$/£ 18,000 and \$/£31,500 per employee

**Poor:** Less than \$/£18,000 per employee

Net Profit per Employee

**\$43.87K**

Good

# RETURN ON EQUITY (EBITDA)

**Definition:** The amount of profit earned in a period (without the effects of depreciations etc) in relation to total shareholders funds (Capital, Retained earnings, current earnings)

Return on Equity (EBITDA) normalises the data and removes the effect of accounting decisions and income taxes.

**Scale:**

**Good:**

**Fair:**

**Poor:**

Return on Equity EBITDA

**121.74%**

Good

# RETURN ON ASSETS (EBITDA)

**Definition:** The return generated by your total assets (current and fixed). The effects of depreciation etc are not taken into account and therefore normalises the data by removing the effect of accounting decisions and income taxes.

**Scale:**

**Good:**

**Fair:**

**Poor:**

Return on Assets EBITDA

**48.37%**

Good

# EFFICIENCY MEASURES

Efficiency ratios are a great way of analysing the underlying operational or investment efficiency of a business. For instance, Jazoodle assesses the efficiency that a company has in collecting its debts, or how effective its capital programs are in generating revenues.

## RECEIVABLES TURNOVER TIMES

**Definition:** The level of sales compared to the level of credit outstanding with your clients.

Receivables Turnover (RT) The Receivables Turnover measure assesses the level of cash sales relative to credit. For instance, if total sales are \$100 and a company has \$50 in accounts receivables, the measure would be 2 – or cash sales are twice as common as credit sales. A low figure may indicate that underlying cashflow issues may surface from time to time. Please note that it is not possible for Jazoodle to identify how many sales are created by offering credit to a company's customers. However, this can be estimated by relating the total revenue to the number of debtors that a business currently has in place.

**Scale:**

**Good:** Greater than 10

**Fair:** Between 3 and 10

**Poor:** Less than 3



## ASSET TURNOVER TIMES

**Definition:** Total Income divided by total assets

Asset Turnover Ratio (ATR) This is a great measure to use to help assess the effectiveness of a business to generate cash/sales from its asset investments. Look for an increase over time. Generally, a figure greater than 1 (preferably a lot greater) is advantageous and shows that a company has invested wisely in its capital investments. If this measure declines over time, it is worth investigating where the decline is coming from. For instance, if Return on Assets is also falling, it is worth questioning whether the decline is coming from a reduction in profit margins or a change in asset turnover – or even a combination of the two.

**Scale:**

**Good:** Greater than 1.5

**Fair:** Between 1 and 1.5

**Poor:** Less than 1



# INVENTORY TURNOVER TIMES

**Definition:** Total COGS divided by Total Inventory Amounts

If stock is held for sale, a critical measure is likely to be the Inventory Turnover Ratio, or the measure of how quickly stock sells over time. The larger the measure, the older the stock is likely to be. Therefore, should a competitor launch a better product, a company may be saddled with stock it cannot sell.

**Scale:**

**Good:** Greater than 5

**Fair:** Between 1 and 5

**Poor:** Less than 1

Inventory Turnover Time

0

Poor

# AVERAGE RECEIVABLES DAYS

**Definition:** The average number of days it takes to collect client debt.

Note, for monthly calculations, we use the change in accounts receivables as the base number. The higher the figure, the less efficient the business is in collecting its client debts. Watch for this over time and look for any deterioration. An overhaul of accounts receivables processes or client communications may be needed. Alternatively, it could reflect the winning of a large account, with a client who perhaps takes longer than average to pay, but who may always do so. If this is the case, assess in conjunction with other measures, such as profitability measures or liquidity measures.

**Scale:**

**Good:** Less than 20

**Fair:** Between 20 and 40

**Poor:** Greater than 40

Average Receivables Days

72.94

Poor

# AVERAGE INVENTORY DAYS

**Definition:** Total spend on direct costs related to total inventory amounts averaged over a year

Days Sales in Inventory In conjunction with the Inventory turnover ratio, this measures the number of days it takes to sell stock. The greater the number, the older the stock is likely to be.

**Scale:**

**Good:** Less than 30

**Fair:** Between 30 and 50

**Poor:** Greater than 50

Average Inventory Days

0

Good

# AVERAGE PAYABLES DAYS

**Definition:** total spend on overheads and COGS related to Accounts payable amounts and averaged out.

For monthly figures, we use the change in accounts payables amounts

This measure assesses how efficient your supplier payment policies and practices are. Check for changes over time plus also ensure this figure is not less than your average receivables period.

**Scale:**

**Good:** Greater than 30 days

**Fair:** Between 14 and 30 Days

**Poor:** Less than 14 Days

Average Payables Days

7.27

Poor

## FOR MORE INFORMATION

Your dashboard is meant as a starting point in your understanding of the financial aspect of your business. Numbers can tell us an awful lot about many aspects of the business. Please see our support pages on Jazoodle.com for a greater understanding of your numbers, and if there is anything you don't like, or understand about your numbers, then please do consult your accountant or trusted business advisor. Jazoodle's power is that it can give you an early warning of an underlying issue that will impact your business. Please regularly assess your trends for each of the important measures. We recommend you do this monthly at least. Visit [www.jazoodle.com](http://www.jazoodle.com) for more information