

Regan Arts - Worse Case Scenario
2015 Income Statement & Cash Flow
Key Assumptions

Revenue - Income Statement

- Revenue derived is based on the lay down quantities as proposed by RA Sales team (done in conjunction with S&S)
- Laydown quantities are the quantities that the sales team are committing to sell
- In this model laydown quantities as provided by the RA sales team have been reduced by 20%**
- The selling list price is reduced by the average discount rate of 53%. (This is the industry standard discount rate)
- The model assumes laydown occurs during the month of publication of the book
- Returns then occur 3 months after laydown. Return rates vary based on category of book:
 - Fiction 50%
 - Other 40%
 - Illustration 30%
- The model spreads the returns over 3 months: 60% in Month 1, 20% in month 2 and 20% in Month 3

Expenses - Income Statement

- Most expenses are based on the expenses per the Individual Title Budgets which are prepared by Production Director
- PPB (Paper Print & Binding) unit cost comes from the individual title budgets.
- Plant Expense (Costs to Develop the book) unit cost again comes from the individual title budgets.
- PPB and Plant expenses units are based on the laydown units less the returned units and match the month of revenue and returns.
- Royalties are based on the % contractually agreed on each title - Royalty % and expense increases based on the number of books sold.
- Note in the P&L for simplicity we booked royalty expense in total during the laydown (Publication month) (Units are laydown quantities less returns).
- Selling and Distribution (paid to our distributor) is 13% of Revenue. The contract stipulates a flat 10% but also includes additional charges, such as special packaging, etc. and this model assumes an additional 3%.
- Marketing & Promotion (M&P) spend comes from the individual title budgets. As a guide \$1.00 per hardcover copy \$0.50 to \$0.75 per paperback.
- Freight spend comes from the individual title budgets.
- M&P and Freight expense is booked in total during the publication month.

Cash Flow - Inflows

- Cash is received 60 days after invoicing/publication. (e.g. February revenue is paid in April)
- Note during months where no books are published, returns of earlier publications could result in negative revenue.
- Cashflow model shows the total revenue and selling & distribution on a separate line (note actual cash received is the net of these 2 lines).

Cash Flow - Outflows

- Royalty Advances (14) are the commitments we have made in 2014. These are the installments that we have to pay per title in 2015.
- Royalty Advances (15) is a placeholder for advances on titles that will be produced in 2016 and beyond. The model front loads (75%) in the first half of 2015.
- PPB payments occur in the month of invoicing/publication and are based on the total print run per the individual title budget, not the laydown quantities.
- Plant expense payments occur in the month of invoicing/publication and are based on the individual title budget, not laydown quantities.
- Other expenses (salaries etc.) are based on the P&L and occur in the month the expense is occurred.
- The Cash Flow Model also includes a capex placeholder of \$240k. (\$200k in leasehold improvements for the proposed move and \$40k in Computer equipment, printers etc.)

Regan Arts
Income Statement 2015

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	FY 2015
Revenue*	0	408,733	1,577,905	623,255	317,400	15,975	(14,830)	(190,682)	1,887,771	792,200	(90,426)	(314,839)	5,012,461
Direct Costs													
PPB	0	64,000	215,264	111,308	44,184	21,864	(6,758)	(27,129)	157,065	350,411	(13,320)	(45,491)	871,399
Plant Expense	0	17,165	71,925	54,917	33,800	34,457	20,913	(7,909)	33,881	115,001	(10,929)	(14,945)	348,277
Royalty	0	66,836	238,548	61,401	38,749	45,286	21,750	13,105	199,597	88,754	0	12,289	786,316
Selling & Distribution	0	53,135	205,128	81,023	41,262	2,077	(1,928)	(24,789)	245,410	102,986	(11,755)	(40,929)	651,620
	0	201,136	730,864	308,649	157,995	103,684	33,978	(46,722)	635,954	657,152	(36,004)	(89,076)	2,657,612
Gross Margin	0	207,597	847,041	314,606	159,405	(87,709)	(48,808)	(143,960)	1,251,816	135,047	(54,422)	(225,763)	2,354,849
Other Expenses													
M&P	0	50,000	285,000	58,000	73,000	62,500	27,500	5,000	246,000	153,000	0	0	960,000
Freight	0	11,791	64,464	12,926	16,412	16,085	6,266	2,433	59,087	50,764	0	0	240,228
Salaries- Existing Employees	142,265	142,265	142,265	142,265	142,265	142,265	142,265	142,265	142,265	142,265	142,265	142,265	1,707,180
Salaries- New Employees	50,875	50,875	50,875	50,875	50,875	50,875	50,875	50,875	50,875	50,875	50,875	50,875	610,500
Overhead	67,300	67,300	67,300	67,300	67,300	67,300	67,300	67,300	67,300	78,300	67,300	67,300	818,600
	260,440	322,231	609,904	331,366	349,852	339,025	294,206	267,873	565,527	475,204	260,440	260,440	4,336,508
Net Profit	(260,440)	(114,634)	237,137	(16,760)	(190,447)	(426,734)	(343,014)	(411,833)	686,289	(340,157)	(314,862)	(486,203)	(1,981,659)

* Negative revenue occurs in months where no books are published and we have returns of earlier publications.

Regan Arts
Cash Flow - 2015

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	FY 2015
<u>Cash Inflow</u>													
Revenue	0	0	0	408,733	1,577,905	623,255	317,400	15,975	(14,830)	(190,682)	1,887,771	792,200	5,417,726
Selling & Distribution	0	0	0	(53,135)	(205,128)	(81,023)	(41,262)	(2,077)	1,928	24,789	(245,410)	(102,986)	(704,304)
	0	0	0	355,598	1,372,778	542,232	276,138	13,898	(12,902)	(165,893)	1,642,360	689,214	4,713,422
<u>Cash Outflow</u>													
Royalties - Advances (14)*	141,000	91,250	295,000	205,000	1,250	0	0	33,750	368,750	230,000	10,000	65,000	1,441,000
Royalty Advances (15)	250,000	250,000	250,000	250,000	250,000	250,000	83,333	83,333	83,333	83,333	83,333	83,333	2,000,000
PPB	0	100,000	473,350	123,700	116,725	158,700	44,775	17,000	456,920	526,305	0	0	2,017,475
Plant Expense	0	26,820	133,546	65,080	73,347	92,903	46,644	14,500	108,424	185,000	0	0	746,264
Salaries & Fringe Benefits	193,140	193,140	193,140	193,140	193,140	193,140	193,140	193,140	193,140	193,140	193,140	193,140	2,317,680
Other Overhead	67,300	67,300	67,300	67,300	67,300	67,300	67,300	67,300	67,300	78,300	67,300	67,300	818,600
M&P	0	50,000	285,000	58,000	73,000	62,500	27,500	5,000	246,000	153,000	0	0	960,000
Freight	0	11,791	64,464	12,926	16,412	16,085	6,266	2,433	59,087	50,764	0	0	240,228
Capex (LHI & Computers)	70,000	70,000	70,000	10,000	0	0	10,000	0	0	10,000	0	0	240,000
	721,440	860,301	1,831,800	985,146	791,174	840,628	478,958	416,456	1,582,954	1,509,842	353,773	408,773	10,781,247
Net Cash Flow	(721,440)	(860,301)	(1,831,800)	(629,548)	581,604	(298,396)	(202,820)	(402,558)	(1,595,857)	(1,675,736)	1,288,587	280,440	(6,067,825)

* Commitments made in 2014 for titles published in 2015. This does not reflect payments made in 2014.

Expense Title	Yearly Salary	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	FY 2015
<u>Existing Employees</u>														
CEO	450,000	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	450,000
Head of Production	140,000	11,667	11,667	11,667	11,667	11,667	11,667	11,667	11,667	11,667	11,667	11,667	11,667	140,000
Editorial Intern	32,000	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	32,000
Editorial Intern	32,000	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	32,000
Editor	50,000	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000
Senior Editor	100,000	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	100,000
Associate Editor	55,000	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	55,000
Managing Editor	50,000	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000
Executive Editor and Associate Publisher	160,000	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	160,000
Head of Marketing and Publicity	100,000	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	100,000
Head of Sales	90,000	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000
Creative Director	250,000	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	250,000
Finance Manager (40% Allocation)	29,000	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	29,000
Total Salaries		128,167	1,538,000											
Fringe & Benefits	11%	14,098	169,180											
Total Salaries and Fringe Benefits-Existing Employees		142,265	1,707,180											
<u>New Hires</u>														
Director of Publicity	150,000	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	150,000
Junior Publicist	75,000	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	75,000
Executive Assistant	75,000	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	75,000
Editorial Assistant	40,000	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	40,000
Senior Editor	150,000	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	150,000
Interior Designer	60,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Total Salaries		45,833	550,000											
Fringe & Benefits	11%	5,042	60,500											
Total Salaries and Fringe Benefits - New Hires		50,875	610,500											
Total Salaries and Fringe Benefits for Existing and New		193,140	2,317,680											

Expense	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	FY 2015
Rent *	27,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300	327,600
Other Overheads	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
Insurance	0	0	0	0	0	0	0	0	0	11,000	0	0	11,000
Legal Fees	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Travel and Entertainment	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Total Overhead	67,300	78,300	67,300	67,300	818,600								

* 6,300 square feet at \$52