

SHARKY'S WOODFIRED MEXICAN GRILL RESTAURANTS

SALES TO COST ANALYSIS

The following table is based on the actual operating results of three (3) franchisee-owned restaurants operated by ~~(the Company (the "Restaurants") during the year ended December 31, 2013.~~ The Restaurants are located in Westlake Village, Sherman Oaks and Newbury Park, California, and were open throughout the twelve-month period. These Restaurants were selected because their respective sales are in the high, medium and low range for Sharky's Restaurants. The Company operated Westlake Village, and Sherman Oaks during 2014 and Newbury Park was operated by a franchisee

The table contains a percentage of ~~Net~~Gross Sales for each expense item. This information should help you in preparing a Franchisee's pro forma analysis at different sales levels and projected rent costs.

The purpose of this Analysis is to reflect the costs and expenses which the Restaurants would incur if operated by a Franchisee under the current Franchise Agreement. Actual operating amounts from the Company's financial records were used, but certain costs have been adjusted to take out items associated with a Company operated Restaurant vs a Franchise owned and operated SHARKY'S Restaurant. No representation is made as to what level of sales a Franchisee may actually expect to achieve in a franchised Restaurant. All management costs associated with a manager has been taken out to reflect a owner operated franchisee run business.

The analysis is therefore limited in its usefulness and should be used only as a reference for a potential Franchisee when conducting his or her own analysis, based upon his or her independent estimates of potential annual sales volume, costs and expenses (including rent) for a specific location. It should not be used as a statement or forecast of actual sales, costs or profits for any individual existing or future Restaurant.

The analysis contains certain Bases and Assumptions as noted following each table and sets forth a breakeven point for each annual sales volume. We urge you to consult with financial, business and legal advisors in connection with the information contained in the Analysis.

This Analysis has been prepared in accordance with generally accepted accounting principles. Substantiation of the information contained within this Analysis will be made available to prospective franchisees upon reasonable request.

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<u>2014</u>	<u>Newbury Park (Low)</u>		<u>Sherman Oaks (Med)</u>		<u>Westlake Village (High)</u>	
<u>Gross Sales (A)</u>	<u>\$1,537,886</u>	<u>100 00%</u>	<u>\$1,830,597</u>	<u>100 00%</u>	<u>\$2,724,315</u>	<u>100 00%</u>
<u>Cost of Goods sold (B)</u>						
<u>Food Cost</u>	<u>\$383,167</u>	<u>24 92%</u>	<u>\$498,416</u>	<u>27 23%</u>	<u>\$668,404</u>	<u>24 53%</u>
<u>Beverage Cost</u>	<u>\$26,055</u>	<u>1 69%</u>	<u>\$27,620</u>	<u>1 51%</u>	<u>\$45,342</u>	<u>1 66%</u>
<u>Paper Cost</u>	<u>\$45,609</u>	<u>2 97%</u>	<u>\$62,908</u>	<u>3 44%</u>	<u>\$87,010</u>	<u>3 19%</u>
<u>Labor Costs (C)</u>	<u>\$360,069</u>	<u>23 41%</u>	<u>\$407,376</u>	<u>22 25%</u>	<u>699,693</u>	<u>25 68%</u>
<u>Total COGS (B)</u>	<u>\$814,900</u>	<u>52 99%</u>	<u>\$996,320</u>	<u>54 43%</u>	<u>\$1,500,450</u>	<u>55 08%</u>
<u>Gross Profit</u>	<u>\$722,986</u>	<u>47 01%</u>	<u>\$834,277</u>	<u>45 57</u>	<u>\$1,223,865</u>	<u>44 92%</u>
<u>Expenses</u>						
<u>Controllable Costs (D)</u>	<u>\$201,348</u>	<u>13 09%</u>	<u>\$199,364</u>	<u>10 89%</u>	<u>\$323,798</u>	<u>11 89%</u>
<u>Non Controllable Costs (E)(F)</u>	<u>\$251,867</u>	<u>16 38%</u>	<u>\$277,900</u>	<u>15 18%</u>	<u>\$427,651</u>	<u>15 70%</u>
<u>Total Expenses</u>	<u>\$453,215</u>	<u>29 47%</u>	<u>\$477,264</u>	<u>26 07</u>	<u>\$751,449</u>	<u>27 58%</u>
<u>Net Income/ EBITDA (G)(H)</u>	<u>\$269,771</u>	<u>17 54%</u>	<u>\$357,013</u>	<u>19 50%</u>	<u>\$472,416</u>	<u>17 34%</u>

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BASES AND ASSUMPTIONS FRANCHISE OPERATED RESTAURANT

- (A) **NetGross Sales** includes all food and beverage sales ~~less any discounts~~
- (B) **Cost of Goods Sold** includes food, beverage, paper and labor costs
- (C) **Labor costs** ~~for~~ **Costs** For calculation purposes, Manager's salary is removed along with the Manager's associated labor expenses such as Workers Compensation, taxes and payroll fees because it is assumed that the Franchisee owner will act as Manager. The labor costs include one Assistant Manager for each Restaurant plus its Team Members. Payroll taxes and Workers Compensation insurance are included. *Workers Compensation has been adjusted in accordance with the reduced labor cost. EPLI insurance has been removed as it is a requirement due to our employee leasing company as well as an elective insurance rather than a requirement. Currently most if not all Sharky's Franchise partners choose not to purchase EPLI insurance.*
- (D) **Controllable costs** include restaurant supplies, uniforms, repairs and maintenance, laundry, utilities. We have adjusted the above financials to reflect costs that you will not ensure as a SHARKY'S franchisee. Repairs and maintenance have been adjusted to reflect 50% of net sales per store. Consultants, Designers, Construction, have all been adjusted to reflect a franchisee run SHARKY'S Restaurant. Repairs and Maintenance varies based on the age of the store and equipment. All discounts are expensed in controllables.
- (E) **Non-controllable costs** include bank charges, credit card fees, local store marketing, liability insurance, occupancy costs and payments to the Sharky's Marketing Fund. This table includes a 5% royalty and 1.5% marketing fund cost applicable to franchisees. Local store marketing has also been adjusted to reflect the mandatory expenditure of 1% of Net Sales.
- (F) **Actual Occupancy Costs** included in Non-controllable costs for these three restaurants in 2014 were

Newbury Park	\$ 143,142.83 (11.45) <u>138,185</u> - (9%)
Sherman Oaks	\$ 77,446.20 (5.03) <u>89,000</u> - (4.90%)
Westlake Village	\$ 182,348.86 (8.18) <u>184,604</u> - (6.7%)

Occupancy includes rent, property taxes and any common area charges. A Franchisee's occupancy costs will be based on the terms of the Lease negotiated

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