



LPO BENCHMARK REPORT

Insights into the Post Office Industry

Based on Profit and Loss Statements for the Year Ended 30th June 2007

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INTRODUCTION

Who should read this report?

- Existing Licensed Post Office Owners,
- Investors who are just about to purchase a Licensed Post Office, or
- Investors who would like to know more about Licensed Post Office.

Why should you read this report?

To our knowledge this report is the only report of its kind available to the public. This report aims to provide a consolidated analysis on overall income and profitability within the Licensed Post Office industry. From this analysis we hope to provide you a valuable insight into Licensed Post Offices.

The data used in this report was obtained over the course of performing due diligence exercises on Licensed Post Offices for sale in South Australia in 2008.

What does this report contain?

- An insight into the Licensed Post Office industry.
- Financial analysis and observations of actual Licensed Post Offices.
- Our initiatives and services for Licensed Post Offices.

Things you should note when reading this report

References to “LPO” and “Post Office” are used interchangeably and specifically refer to Licensed Post Offices.

Our unique understanding of the Post Office industry has led us to develop a unique approach in calculating and interpreting a Post Office’s financial data. It is important to remember this, especially if you are providing this report to your current accountant.

Please contact us on 08 8232 0003 or visit www.LPOAdvice.com if you would like further explanation on any content in this report..

The LPO Advisor
P&Y Partners

FINANCIAL DATA

The following discussion in this report is based on data collected from a range of LPO's on the market in the 2007 – 2008 financial year.

2006 / 2007 - Key LPO Data	Range		
	High	Average	Low
AP Income (excl PO Box Rental)	\$164,705	\$77,425	\$34,309
AP PO Box Rental	\$60,635	\$22,677	\$874
Total AP Income	\$177,127	\$98,357	\$46,480
Gross Income (GP + AP)	\$247,113	\$136,724	\$61,766
Gross Sales	\$540,048	\$219,687	\$42,187
Gross Profit	\$79,734	\$38,367	-\$3,829
Gross Profit Margin	26.2%	15.6%	-9.1%
Markup %	35.5%	19.7%	-8.3%
AP Income vs Other Income	10.1	1.8	-19.8
Stock Level	\$35,025	\$19,896	\$10,745
Stock Turnover (number of times)	16.9	9.2	3.2
Inventory Days Outstanding	114.5	52.0	21.6
Net Profit	\$177,505	\$104,438	\$41,599
Net Profit Margin	87.3%	76.7%	63.6%
Fixed Cost	\$63,875	\$27,948	\$11,991
RATIOS			
PO Box Rental : Fixed Cost	2.1	0.8	0.1
Total AP Income : Fixed Costs	6.6	4.0	2.0
Gross Profit : Fixed Costs	5.4	1.5	-0.3
Total Income : Fixed Cost	10.3	5.4	3.3

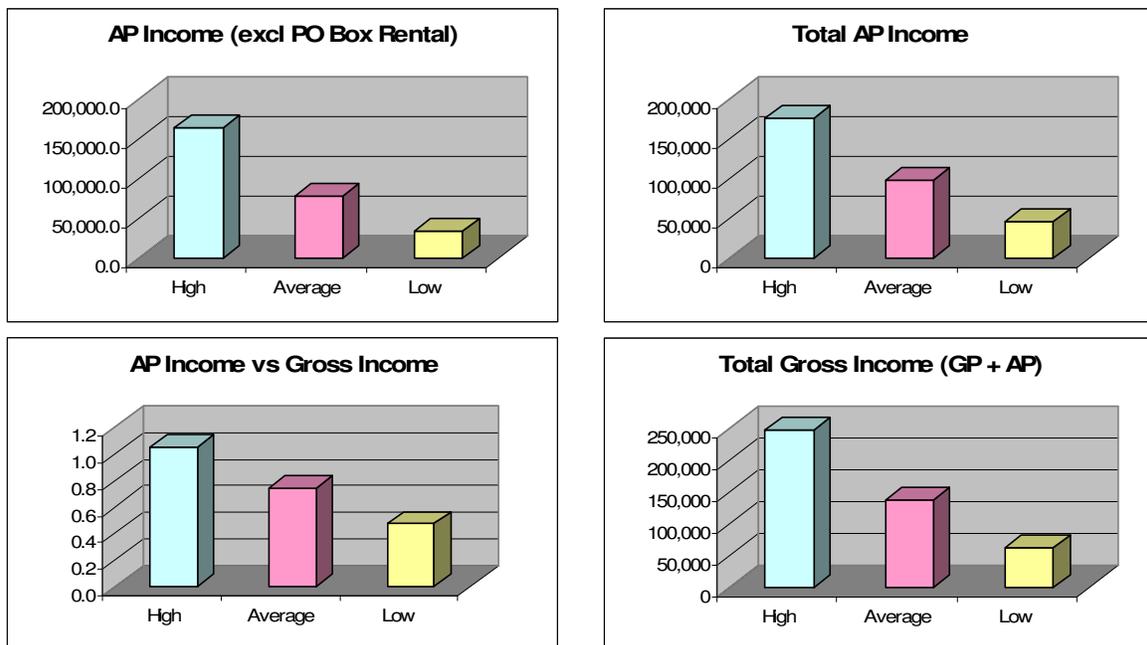
1. AUSTRALIA POST COMMISSION INCOME **- EXCLUDING POST OFFICE BOX RENTAL**

THE LIFE BLOOD

A Licensed Post Office derives income from various sources. The easiest way to categorise this income is whether it is paid by Australia Post or not.

Australia Post pays a Licensed Post Office various types of income based on different goods and services for sale. For example, over the counter bill payments, banking, post office boxes, overriding commission based on number of stamps sold etc, etc.

In the majority of Licensed Post Offices, Australia Post commissions are the main source of income. This income is what we call "The Life Blood of a LPO".



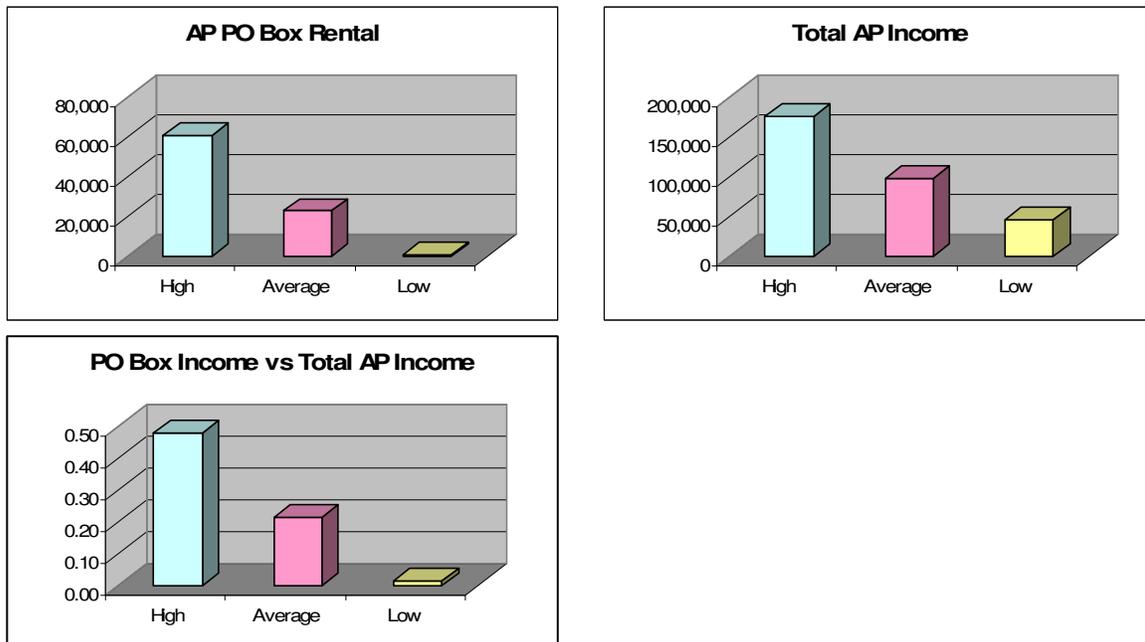
- The average income from Australia Post excluding PO Box rental is \$77,425 compared to the highest of \$164,705 and the lowest of \$34,309.
- Total income from Australia Post including PO Box rental ranges from \$177,127 to \$46,480 with the average being \$98,357.
- Compared against Gross Income, total Australia Post income makes up 50% to 100% of a Post Offices Gross Income with the average being about 70%.

2. AUSTRALIA POST COMMISSION INCOME **- POST OFFICE BOX RENTAL**

A CORNERSTONE PILLAR

We put great importance on the income derived from PO Box rental. We like to think of income from PO Box rental as being as stable as rental income from a property investment. Unless you have tenant problems, you are safe to assume you should get, as a minimum, the same rent next year as you did the previous year. We call this source of income “A Cornerstone Pillar” for a Post Office.

How many PO Boxes you can install and derive income from is very much limited to your physical store layout. Some Licensed Post Offices have hardly any space, while in others you can't believe your eyes how they can fit so many.

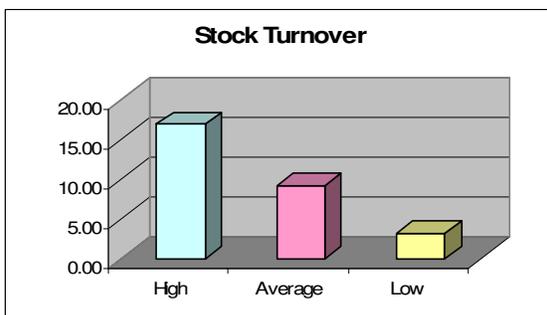
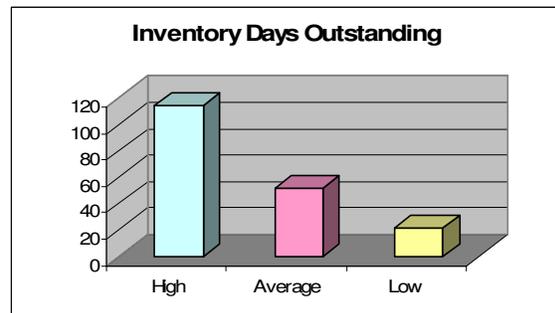
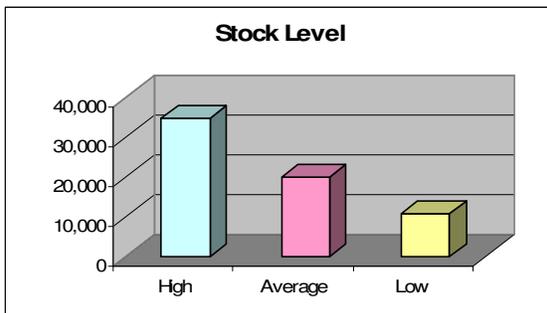
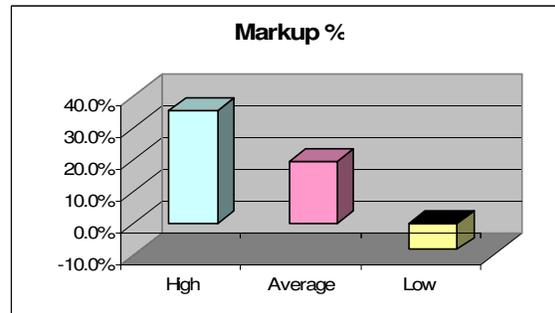
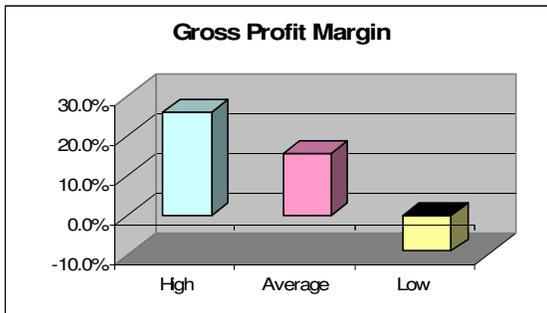
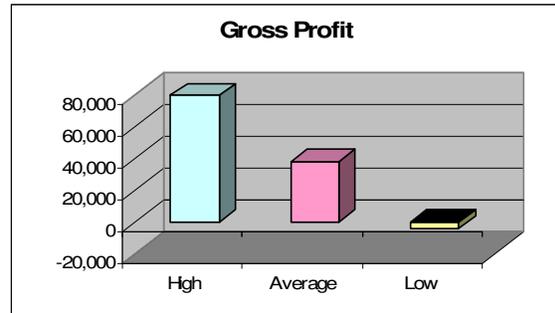
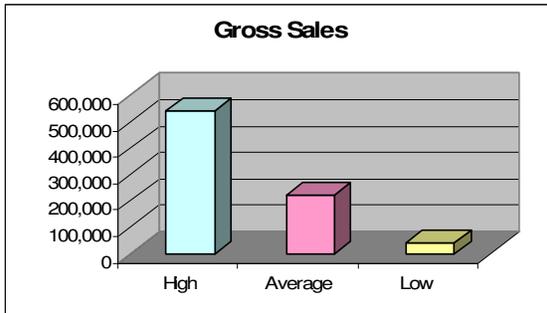


- The average income derived from PO Box rental is \$22,766 compared to the highest of \$60,635 and the lowest of \$847.
- Compared to Total Income from Australia Post, PO Box rental makes up between 48% and 2% of the income derived from Australia Post with the average being 22%.
- The significance of PO Box rental income is highlighted in our safety ratios (see page 10).

3. OTHER INCOME – NON AUSTRALIA POST INCOME

GROWTH OPPORTUNITY

A Licensed Post Office owner has the freedom to source and sell any product, subject to Australia Post guidelines. Bearing in mind that a Licensed Post Office has a monopoly on products that no other business in Australia can sell, you have what marketers call a magnet. In marketing circles, a magnet is an attraction that draws people to your store, and once in your store this is your opportunity to sell them additional products and services. This is an advantage that not many businesses have! We call this a growth opportunity. This is where we believe Post Office owners should focus their time if they want to grow their business.



Some Fast Facts...

- The average Licensed Post Office
 - Sells \$219,687 worth of products a year,
 - To earn a Gross Profit of \$38,367,
 - By Marking Up their products by 19% (ie. have a Gross Profit Margin of 15%)
 - Have an investment in Stock of \$19,896
 - Turnover their inventory approximately 9 times a year
- The highest Gross Sale a Licensed Post Office generated was \$540,048.
- Better performing Licensed Post Offices invested more in inventory, made better margins and turned over their products more often.
- The worst Gross Profit Margin a Licensed Post Office made is -9.1% (markup of -8.3%). Alongside other factors, the reasons for this could be attributed to:
 1. Not enough attention was taken in the bookkeeping,
 2. Not enough attention was taken to the preparation of the financial statements.
 3. The owners did not pay enough attention to their Key Number / Key Drivers in their business

Side Note : Please give us a call if you require any further elaboration or explanation on the above.

4. NET PROFIT

YOUR FUTURE

What's the ultimate aim of a business? To make money for its owners!

We measure the Net Profit of a Post Office as 'Adjusted Net Profit'. This is the same measure business brokers use when buying or selling a business. Adjusted Net Profit is the profit you could expect to earn as the owner of the business, adjusted for any owners remuneration, depreciation, financing expense and private expenses claimed in the business.

Accurately calculating the Net Profit of a Post Office is crucial for two reasons.

Reason No.1

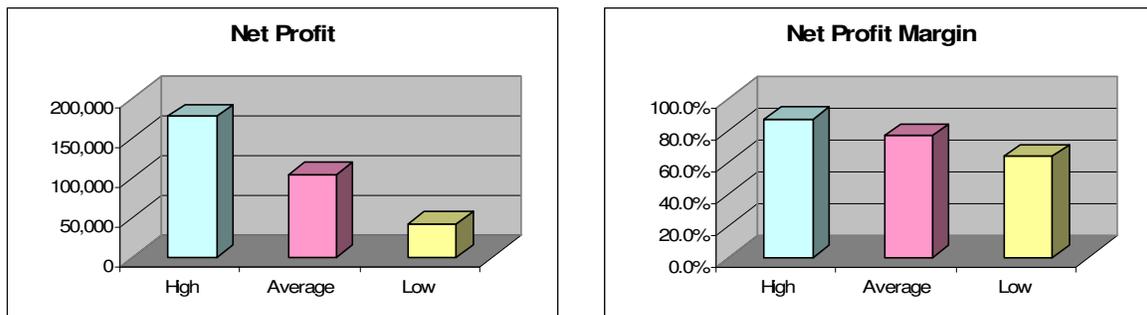
The price a Post Office is bought or sold is ultimately determined based on a multiple of the Adjusted Net Profit.

For example, if the Adjusted Net Profit of a Post Office is \$100,000 and if the current industry multiple is between 3.2 and 3.5 then the market value of the Post Office is approximately between \$320,000 and \$350,000.

A difference of \$10,000 to your calculation of Adjusted Net Profit will mean a difference of \$32,000 to \$35,000 to the purchase price!

Reason No.2

As a buyer you need to know if the profits generated by the business are enough to pay for any financing costs and fund your future lifestyle.



- The median earnings of a Licensed Post Office was \$104,438 compared with the highest earnings for the year being \$177,505 and the lowest being \$41,599.

5. SAFETY

PEACE OF MIND / THE REPUTATION OF LPOS

Post Offices have the reputation of being a safe business. The following words are commonly used by business brokers in describing Licensed Post Offices:-

- Recession proof income
- Steady earnings
- Secure business

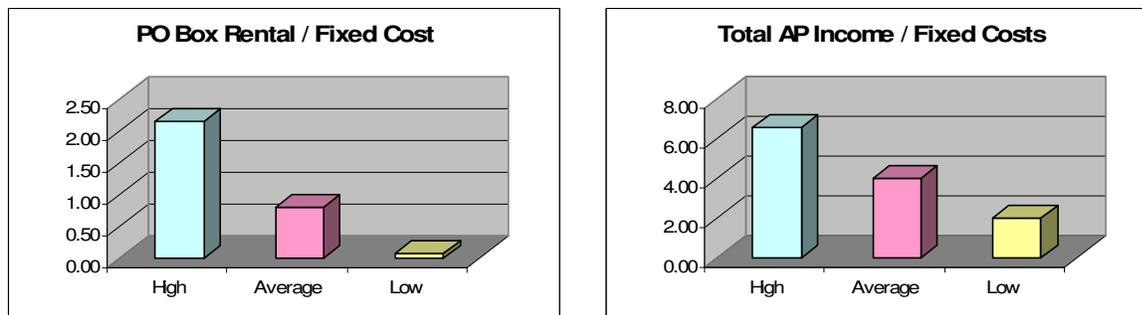
The common response we hear to these words are “compared to what”? How do you measure this concept of safety?

As a buyer, if you had two Post Offices which you were interested in but couldn't decide which one to choose, what do you do? Toss a coin? Or choose the “safer” business?

We came up with two ways to measure a Post Office's “Safety Margin”.

The formulas are based on a very simple question: “Can my PO Box rental cover my fixed costs?” If it does, then you have a very safe business because you know that regardless whether or not you sell other products, your fixed overhead expenses (excluding finance costs) are paid for.

That's peace of mind right?



- On average PO Box Rental covers 80% of Total Fixed Costs.
- On average Total Australia Post Income will cover Total Fixed Costs by 4 times.
- The best safety margin is a LPO whose PO Box Rental alone is twice the level of fixed costs. Now that's a huge margin of safety!!

Consider this: Do you really know what it means to have, on average, 80% of your Total Fixed Costs covered by just your PO Box Rental income??!! Remember for a Licensed Post Office, PO Box Rental is only one source of income (a Cornerstone Income). How does that compare against a deli or a café?

Visit www.LPOAdvice.com to find out more about how we measure business risk.

6. PRESENTATION OF FINANCIAL INFORMATION

GET TOP DOLLAR

We have examined a lot of Licensed Post Office's financial statements and quite frankly, we were amazed at what we saw!

- 7 out of 10 Profit and Loss Statements we examined were not adequately prepared.
- 3 out of 4 Post Offices combined with another business (ie: a newsagency, lotto, etc) did not have adequately prepared financial statements.
- Only 1 out of 10 Profit and Loss Statements analysed were well prepared.

Any good business broker will tell you, if you want to "Get Top Dollar" you must have great records to sell your business. The better your financials present your business the better price you are likely to achieve.

Side Note : We analysed one Licensed Post Office for sale. Not only was their financials not presented appropriately, but they were also selling the business based on an incorrect valuation methodology!! It was very fortunate that our client had engaged our services ...

7. GROWTH

WHAT YOU CAN MEASURE YOU CAN GROW

One simple principle every good business book mentions about how to grow your business is: “What you can measure you can grow”.

Many businesses don't grow because; simply put, business owners don't have a simple way of measuring their performance on a regular basis. Once you develop a simple metric to measure the Key Drivers of your business and monitor it regularly, it is amazing how those numbers grow automatically.

It is important that you identify the appropriate Key Driver which affects each growth opportunity for your LPO.

The ability to condense the “how” and “why” a business grows into basic metrics is a profoundly exciting way to monitor and grow your business.

Everyone has heard the old adage that we should “work ON the business not IN the business”. Identifying your Key Drivers is the first step. The second step is continually working on growing each and every Driver.

As simple as it is sounds, business owners do not do this enough. This is why we believe there is always a great potential to grow any business if you are working together with the right TEAM.

8. EARNINGS STABILITY

CONSISTENCY IS THE TRUE VALUE OF A LPO

There is a desperate need of consolidated financial analysis on the Licensed Post Office Industry.

We would like to undertake an ongoing research on the Licensed Post Office Industry based on the concept of Earnings Stability.

Earnings Stability is a measure used by business analysts to determine the consistent the earnings growth of a business is. Business analysts believe that the more stable a business' earnings are, the more valuable it should be.

Such a study will provide potential owners an invaluable resource before they purchase a Licensed Post Office. Amongst other conclusions, this data will help buyers evaluate any given Licensed Post Office against other industries or against other Licensed Post Office.

If you knew what the Earnings Stability Ratio of your business was, you can quantify how resilient your business is against a downturn in the economy. Ultimately, you will know how valuable your business is to a future buyer and can price your business accordingly.

If you would like to participate in our confidential study please visit www.LPOAdvice.com. All participants will receive a free personalized copy of the report, which will contain your Earnings Stability Ratio and how it compares to the market.

What a valuable report it would be when it came to selling your business!

9. LIPOM ANALYSIS

LIQUIDITY FOR YOUR BUSINESS

What the Licensed Post Office industry is lacking is a publicly available LIPOM statement analysis.

A LIPOM statement is a statement issued by Australia Post to every Licensed Post Office owner. This statement breaks down all the income paid by Australia Post to the individual LPO.

What is the number one criticism someone makes when they look to invest in a Licensed Post Office?

That the LPO is becoming redundant since more people today are paying their bills on the internet!

If we had a dollar for every time we have heard this!

An analysis of your LIPOM statement will allow you to look beyond the figures to provide you with a wealth of information about your LPO business. It will shed significant light on how Licensed Post Offices compete and adapt in light of the technological advances we are facing today. We believe it will show that despite competition, the Licensed Post Office business model is dynamic and easily adapts to create profits for the owners.

A sample of the conclusions we would investigate are as follows:-

- What is the overall trend of Australia Post commissions? Is it up or down?
- Is income from bill payments indeed falling? If yes, at what rate?
- What sources of income are growing?
- What additional revenue streams is Australia Post creating for its retail outlets? How profitable are these?
- Are we selling more or less stamps given the increased usage of the internet as a mode of communication?

Information from a LIPOM statement analysis will ultimately benefit both buyers and sellers when a Post Office is sold. On one hand, the additional insight will generate more faith and confidence in the Licensed Post Office business model whilst on the other hand it will improve liquidity when existing owners want to sell.

If you would like to participate in our confidential study please visit www.LPOAdvice.com. All participants will receive a free copy of the report once it is published.

ABOUT US

Who we are

We are a division of P&Y Partners Chartered Accountants who provide specialist advice to Licensed Post Office owners or potential owners. Our specialty was developed through countless due diligence exercises we have performed on Licensed Post Offices in South Australia.

Call 8232 0003 today if you would like specialist advice in buying, growing or preparing to sell a Licensed Post Office.

Special Offers

For a limited time we are providing a \$500 rebate on our professional fees. Simply mention this LPO Benchmark Report.

Please note, this offer is not to be used in conjunction with any other offer

Testimonials

I recently had the good fortune of utilizing the professional services of Mr Juen Phie of The LPO Advisor and have no hesitation in recommending his services particularly in the area of LPOs.

The acute knowledge of this field provided exemplary "Due Diligence" whilst I was investigating a particular outlet. The insight he provided into the profitability of the enterprise was matched by his fervour which I found to be inspiring and gave the impression of dealing with a specialist rather than just another accountant.

I have no hesitation in recommending these services as I will continue to do so myself.

Yours faithfully,

Bob McLoughlin