YOUR MARKET METRICS
KEY FINANCIAL INDICATORS
Grower Edition
with Dr. Charlie Hall

Glossary of Terms (March 2019)

This Glossary of Terms is developed as a resource guide for growers to use while collecting data for the *Your MarketMetrics* benchmarking project. This will facilitate "apples-to-apples" comparisons among growers, in spite of differences in accounting methods (cash vs accrual) and chart of accounts structures.

Income Statement Data

1. **Gross Sales** ($) – found on the income statement. This is often referred to as top line sales. It represents the total amount of income you received from the sales of plants (including any delivery/shipping charges paid for by the customer).

2. **Net Sales** ($) – found on the income statement. Net Sales is calculated as Gross Sales less any contra accounts such as credits, discounts or price adjustments, returns, allowances or rebates, and billing corrections.

3. **Cost of Goods Sold** (COGS) ($) – found on the income statement; also known as COGS; includes the direct costs attributable to the production of the goods sold in a company. This amount includes direct labor costs as well as the direct cost of the materials used in growing the plants such as containers, media, propagative stock, plant protection products, fertilizers, plant tags or labels, shipping expenses (e.g. boxes, sleeves, etc.), and inbound and outbound freight. Also include depreciation associated with fixed assets used in the direct production of inventory.

4. **Selling, General, & Administrative Costs ($)** – found on the income statement; also known as SG&A or **Operating Expenses**; it is the sum of all direct and indirect selling expenses and all general and administrative expenses (G&A) of a company that includes all the costs not directly tied to growing plants. G&A expenses are referred to as the overhead of the company and includes such things as salaries for corporate, sales, or marketing employees, commissions, non-COGS-related depreciation, advertising and any promotional materials. In addition, rent, utilities and supplies that are not part of growing plants are included in SG&A. In other words, SG&A includes nearly everything that isn't in the cost of goods sold (COGS). Interest expense is one of the notable expenses not in SG&A, however; it has its own line on the income statement.

5. **Interest expenses ($)** – found on the income statement; it represents the cost of borrowing money from banks, equity investors, and other sources to meet short-term working capital needs, add property, plant, and equipment to the balance sheet, acquire competitors, or increase inventory.

6. **Taxes expense (S)** – found on the income statement; what you've calculated that your company owes in taxes based on standard business accounting rules. You report this

expense on the income statement. "Income tax payable" is the actual amount that your company owes in taxes, based on the rules of the tax code. Income tax payable appears on the balance sheet as a liability until your company pays the tax bill. This line item is for corporate income taxes only and does not include property taxes on the land, or any sales taxes owed.

7. **Net Profit** ($) – found on the income statement. Net Profit is often referred to as the bottom line or net income. It is expressed in dollars, representing the amount of money remaining after paying Cost of Goods Sold (COGS), Operating Expenses (SG&A), interest expenses, and taxes.

Net Sales
- COGS
- Operating Expenses (SG&A)
- Interest expenses
- Taxes
Net Profit

Balance Sheet Data

8. **Total Assets** ($) – found on the balance sheet; includes current assets (cash + inventory + accounts receivable) and net fixed assets (property, plant, & equipment adjusted for accumulated depreciation) of the firm. If the land and facilities on which the nursery/greenhouse is operating is included in a separate holding company, the value of the land and facilities should also be included in total assets to prevent underestimating the assets of the company and adversely affecting the asset turnover ratio. However, if a rent or lease payment has been recorded on the income statement, it should be backed out.

9. **Net Worth** ($) – found on the balance sheet; often referred to as **owner's equity**. It is calculated by subtracting total liabilities from total assets on the balance sheet.

Special Focus Data

10. **Total Payroll Dollars** ($) – Payroll dollars are found on the income statement. Payroll expenses are generally one of the largest single cost items for growers, thus the reason for taking a focused look at these expenses. Total payroll dollars should be listed on the top line in the spreadsheet, then a breakdown of those labor costs is entered in the lines underneath the total figure:
    a. All production/growing labor and associated burden (e.g. costs of benefits, worker's compensation, insurance, and payroll taxes).
    b. Costs associated with contract labor (e.g. H2A) or other temporary labor.

c. Compensation and burden for in-house truck drivers.
d. SG&A wages and/or salaries and associated burden.
e. Owner's compensation.

11. **Total Transportation Costs** ($) – found on the income statement. This line item is often referred to as freight, trucking, or shipping charges. These often include truck and trailer rental, freight charges, contract hauling expenses, fuel expenses, fleet insurance, rack/cart expenses, licenses & permits, and any other costs incurred in shipping/transporting the product to customers. Do not include compensation and burden for in-house drivers here because I will take that number from Part C under total payroll and add it in.

12. **Shrink** ($) **–** Some growers may use other terms for shrink, such as dumps, culls, or scrap. These usually include production-related losses from over-sowing, poor germination, insects, diseases, nutrition, chemical damage, watering issues, physical damage, quality not-to-spec, etc. Many growers tend to keep track of their production-related shrink by the total number of units lost, but these units need to be converted to dollars by multiplying those units by their value at the time shrink occurred. Shrink should also include raw material losses, as well as speculation losses (product produced to final saleable stage but not sold for any reason). These are also valued according to their value at the time losses occur.

13. **Depreciation expenses /Amortization (S)** – found on the income statement; Companies record the annual reduction in value of their fixed assets through depreciation. Depreciation results when a company purchases a fixed asset and expenses it over the entire period of its planned use, not just in the year purchased. The IRS requires certain depreciation schedules to be followed for tax reasons. Depreciation is a noncash expense in that the cash flows out when the asset is purchased, but the cost is taken over a period of years depending on the type of asset. Each time a company prepares its financial statements, it records a depreciation expense to allocate the decline in value of machines, equipment, or vehicles it has purchased. Unlike other expenses, depreciation expenses show up on income statements as a "non-cash" charges, meaning that no money was actually paid when expenses was incurred.

    Depreciation expenses can be included in operating expenses (SG&A) and/or cost of goods sold (COGS), but it is worthy of special mention due to its unusual nature. Whether depreciation is included in cost of goods sold or in operating expenses depends on the type of asset being depreciated. Depreciation is listed with cost of goods sold if the expense associated with the fixed asset is used in the direct production of inventory. Examples include the purchase of production equipment and machinery and a building that houses a production plant. Depreciation is listed with operating expenses if the cost is associated with fixed assets used for selling, general and administrative purposes. Examples include vehicles for salespeople or an office computer and phone system.

Regardless of whether depreciation is included in COGS or in SG&A, the total amount of depreciation should be summarized here so we can use it to add back to net profit to calculate EBITDA (net profit + depreciation + amortization + interest + taxes). To clarify, do not back it out of either COGS or SG&A in lines 6-7 above; simply include total depreciation in this separate special focus line item in the spreadsheet.

The concept of amortization is nearly identical to depreciation, except that amortization usually relates to intangible assets. An example of an intangible asset might be goodwill associated with a popular brand name. Very few growers report any amortization, however. But if you do, include it here.

These raw data points will be then used as the inputs within the YMM benchmark comparison system to automatically calculate the following **Key Performance Indicators (KPIs):**

1. **Profit Margin (Ratio)** = Net Profit ÷ Net Sales
2. **Asset Turnover (Ratio)=** Net Sales ÷ Total Assets
3. **Return on Assets (Ratio)** = Net profit ÷ Total Assets
4. **Financial Leverage (Ratio) =** Total Assets ÷ Net Worth (Equity)
5. **Return on Equity (Ratio)** = Net Profit ÷ Net Worth (Equity)
6. **Payroll** (as a % of Gross Sales)
7. **Transportation Costs** (as a % of Gross Sales)
8. **Shrink** (as a % of Gross Sales)
9. **EBITDA** (as a % of Net Sales)
10. **Operating profit margin** (EBIT/Net sales)
11. **Interest efficiency** (EBT/EBIT)
12. **Tax efficiency** (EAT/EBT)