

Claremont Yacht Club

Renovation Briefing and Assumptions 2024

Purpose

This commentary explains how a forecast of \$700k in free cash flow per annum for the renovation forecast is derived, and outlines that \$300k in jetty repairs and maintenance, plus the Bosun's wage, is provided.

Background

Any forecasting process for a new project must start with some agreed underlying assumptions. The following points set out the way I have arrived at the assumptions I have used. The starting position of the club going into this renovation is that we will have **\$2,500,000** on deposit available to put towards the project (we already have this). In addition, we will have **\$600,000** in cash for our working capital (we already have this).

In addition, we will have completed and paid for the driveway renovation (**\$200,000**) this year, out of earnings during the year.

The above is the situation at the start line.

1. Cashflow

The key assumption is that we will have approximately \$700,000 per annum in free cash flow to put towards our interest bill and paying down debt. Over the last 4 years our average free cash flow per year has been **\$690,000**.

| | |
|------|--|
| 2021 | 600,000 - used for final debt repayment of E jetty, excludes jobkeeper |
| 2022 | 668,142 |
| 2023 | 783,845 |
| 2024 | <u>709,894</u> |
| | <u>2,761,881</u> |

That period includes a fair range of events, eg the new E jetty being less full, Covid shutdowns and a reasonably fuller marina in the past year. Generally, over that period our cashflow has increased with the key variable being Jetty maintenance expenses. The disruption to facilities during the renovation period will affect F&B revenue (in particular functions), but I note there is not a large margin on this. The reduced activity will allow break-even on relevant full-time staff wages.

The current situation is that our marina is now generally full, the exception being the larger pens on E jetty. Our pen fees and membership fees go up in line with inflation so increases in costs will usually be recouped via CPI linked higher fees.

Likewise with F&B and fuel, we recoup costs with a small surplus to cover depreciation etc.

The main variable cost each year, and for which we need to ensure adequate cash flow into the future, is jetty maintenance. This is also the most important thing to get right – if we don't maintain the jetties, we will eventually have no club and no revenue. Looking at last year, we spent \$389,000 on direct jetty maintenance, e.g. direct materials and contractor costs for the new pylons, significant work done on the moorings and new walkways on A jetty. Despite these significant works, we had good cashflow. The 4-year average on jetty maintenance is \$175,000.

In addition, and not included in the \$389,000 last year (or \$175k average), about 70% of the Bosun's wage is allocated to the jetty costs. I consider the Bosun's wage (~\$90k) an important part of our ongoing jetty maintenance program, and therefore more a fixed cost than variable.

Based on previous years, if we assume ongoing direct jetty maintenance costs will be \$300,000 (extra to the Bosun's wage), then our average free cashflow forecast of \$700,000 for budgeting purposes is reasonable. It accords with the medium-term average as well. Note that it excludes interest income currently earned (\$83,000).

Note, in practical terms, this mean I am assuming we spend **\$3,000,000 on direct jetty maintenance in the next 10 years** plus whatever time the bosun position has allocated to maintenance.

2. Increased Revenue

The premise of this renovation was to keep our existing clubhouse up to date. It was never proposed that the renovation will need to generate more revenue to pay for itself or we will need to find more members to keep the club financial. I have stuck with this theme in looking at our future cashflow. So, my assumptions are that we will continue to operate as we currently do, no extra members, cost and fee increases in line with inflation (and offsetting each other) and no extra cashflow due to this renovation. Having said that, I think this is a very conservative assumption. I do think current members will use the club more often or book a function with us using the upgraded facilities. We are making decisions though, on the basis that members will continue to use the club as they currently do with no expectation that we will generate a larger surplus. Obviously, any extra surplus generated will be available to go towards paying down debt earlier than forecast.

3. Riverbed Lease

From 2027 our riverbed lease will increase, this is likely to be in the order of \$200,000, however there is strong momentum from clubs along the river to resist such an increase. Prudence however, means we need to be aware of the potential full rise. At present, we have not made any decisions about extra fees to be raised if/when the lease increases. My view is we assess the impact at the time and look to pass the increase on to the membership. For example, a 5% increase on all fees and charges will be enough to pay for the increase. The club may be able to absorb some of the increase itself reducing the impact.

4. Financing

Throughout discussions with our banker, ANZ, over more than 12 months, I have confirmed that they are keen to lend to us for this project. Discussions and a written indicative quote confirm they recognise construction cost increases and are still happy to lend – on our preferred terms of 10 years, but up to 20 years if needed.

Given our strong financial position and considerable equity in this project I believe we will be able to finance this project at reasonable rates, I have budgeted on 6%. I will look for a competitive financing arrangement to suit our cashflow with an offset and redraw facility.

5. Keeping it Real

It is easy in these situations to be both too optimistic but equally too prone to catastrophising. I think the assumptions I have made are conservative but realistic. There are many things that can happen, both positive and negative. If my assumptions prove too conservative, then the project will be paid off faster. Unforeseen events beyond the immediate capacity of the club to pay will need to be met by the membership as we always have, and there will be options to extend the term of the loan if required.

6. Treasurer's preferred option

As Treasurer, I fully support Option 1, which is the preferred option of the Building Committee. The Club has the financial capacity to undertake this project. Splitting the project over some years will be more expensive and disruptive. Doing it all at once gives us the result we want now, and financially we can do it.

Option 2 was developed to reduce the scope of the project to save costs in the event that we have unforeseen jetty maintenance issues. I believe that I have

more than adequately allowed for jetty maintenance and confirmed other financing options if needed.

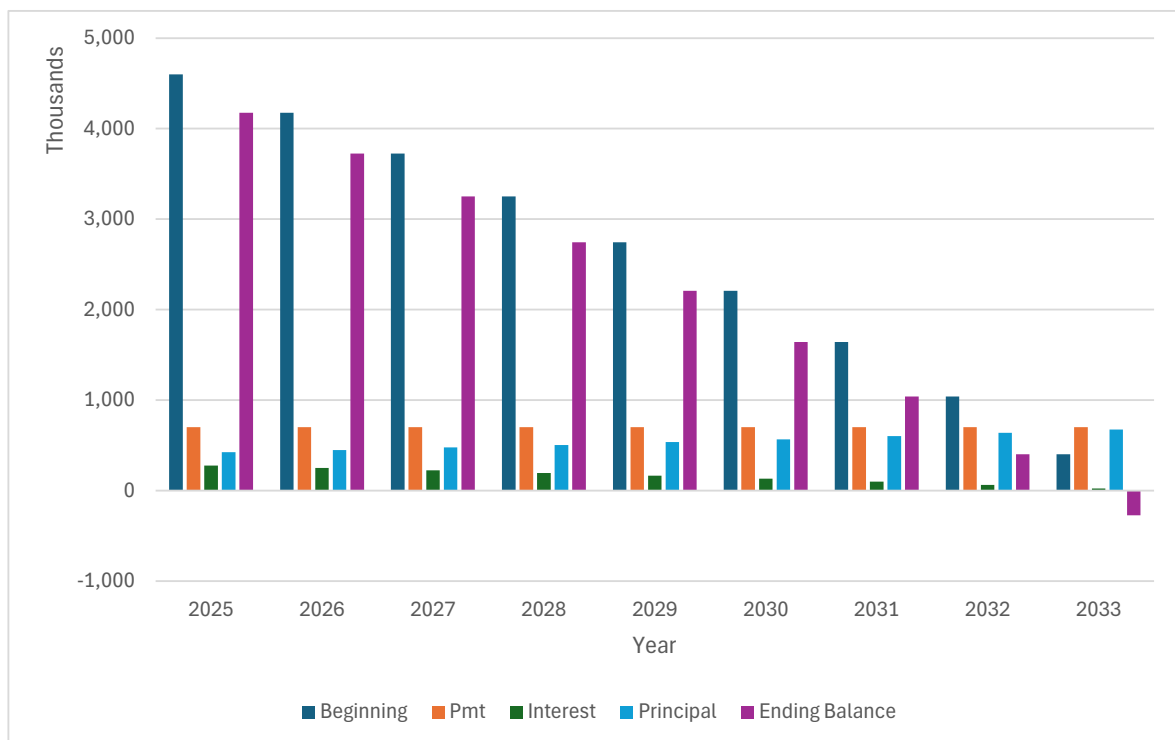
Ian Spencer FCPA
Honorary Treasurer
Claremont, Western Australia
October 2024

Claremont Yacht Club Loan Calculations

This is my base case scenario. A total project cost of \$7,100,000

| | |
|-----------------------|------------------|
| Loan | 4,600,000 |
| Rate | 0.060 |
| Annual Payment | 700,000 |

| Year | Beginning | Pmt | Interest | Principal | Ending Balance |
|-------------|-----------|---------|----------|-----------|----------------|
| 2025 | 4,600,000 | 700,000 | 276,000 | 424,000 | 4,176,000 |
| 2026 | 4,176,000 | 700,000 | 250,560 | 449,440 | 3,726,560 |
| 2027 | 3,726,560 | 700,000 | 223,594 | 476,406 | 3,250,154 |
| 2028 | 3,250,154 | 700,000 | 195,009 | 504,991 | 2,745,163 |
| 2029 | 2,745,163 | 700,000 | 164,710 | 535,290 | 2,209,873 |
| 2030 | 2,209,873 | 700,000 | 132,592 | 567,408 | 1,642,465 |
| 2031 | 1,642,465 | 700,000 | 98,548 | 601,452 | 1,041,013 |
| 2032 | 1,041,013 | 700,000 | 62,461 | 637,539 | 403,474 |
| 2033 | 403,474 | 700,000 | 24,208 | 675,792 | -272,318 |

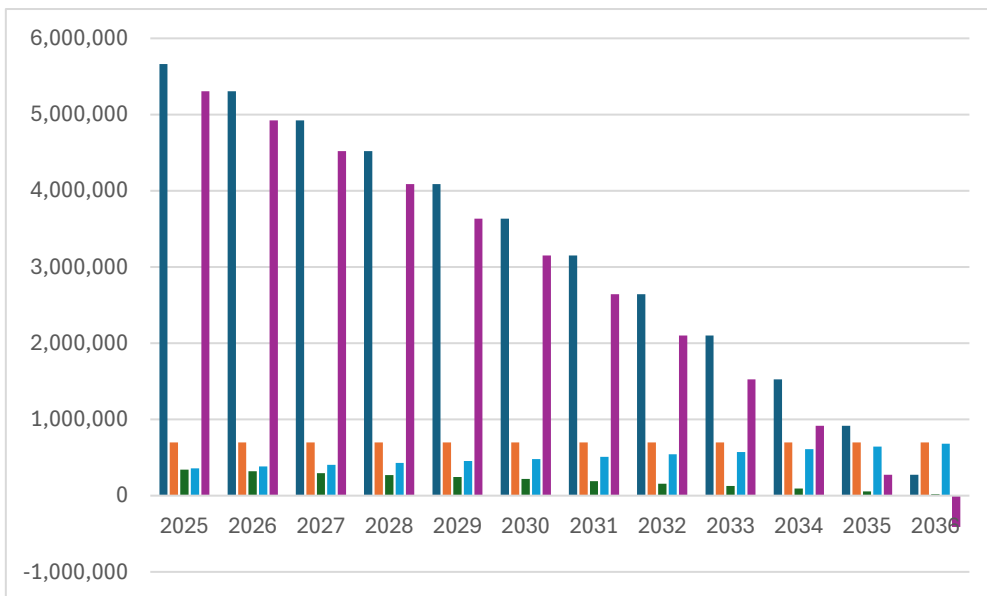


Claremont Yacht Club Loan Calculations

This example assumes the project is 15% over budget, ie total cost \$8,165,000
 This represents a 25% contingency on the build

Loan 5,665,000
Rate 0.060
Annual Paym 700,000

| Year | Beginning | Pmt | Interest | Principal | Ending Balance |
|-------------|-----------|---------|----------|-----------|----------------|
| 2025 | 5,665,000 | 700,000 | 339,900 | 360,100 | 5,304,900 |
| 2026 | 5,304,900 | 700,000 | 318,294 | 381,706 | 4,923,194 |
| 2027 | 4,923,194 | 700,000 | 295,392 | 404,608 | 4,518,586 |
| 2028 | 4,518,586 | 700,000 | 271,115 | 428,885 | 4,089,701 |
| 2029 | 4,089,701 | 700,000 | 245,382 | 454,618 | 3,635,083 |
| 2030 | 3,635,083 | 700,000 | 218,105 | 481,895 | 3,153,188 |
| 2031 | 3,153,188 | 700,000 | 189,191 | 510,809 | 2,642,379 |
| 2032 | 2,642,379 | 700,000 | 158,543 | 541,457 | 2,100,922 |
| 2033 | 2,100,922 | 700,000 | 126,055 | 573,945 | 1,526,977 |
| 2034 | 1,526,977 | 700,000 | 91,619 | 608,381 | 918,596 |
| 2035 | 918,596 | 700,000 | 55,116 | 644,884 | 273,711 |
| 2036 | 273,711 | 700,000 | 16,423 | 683,577 | -409,866 |

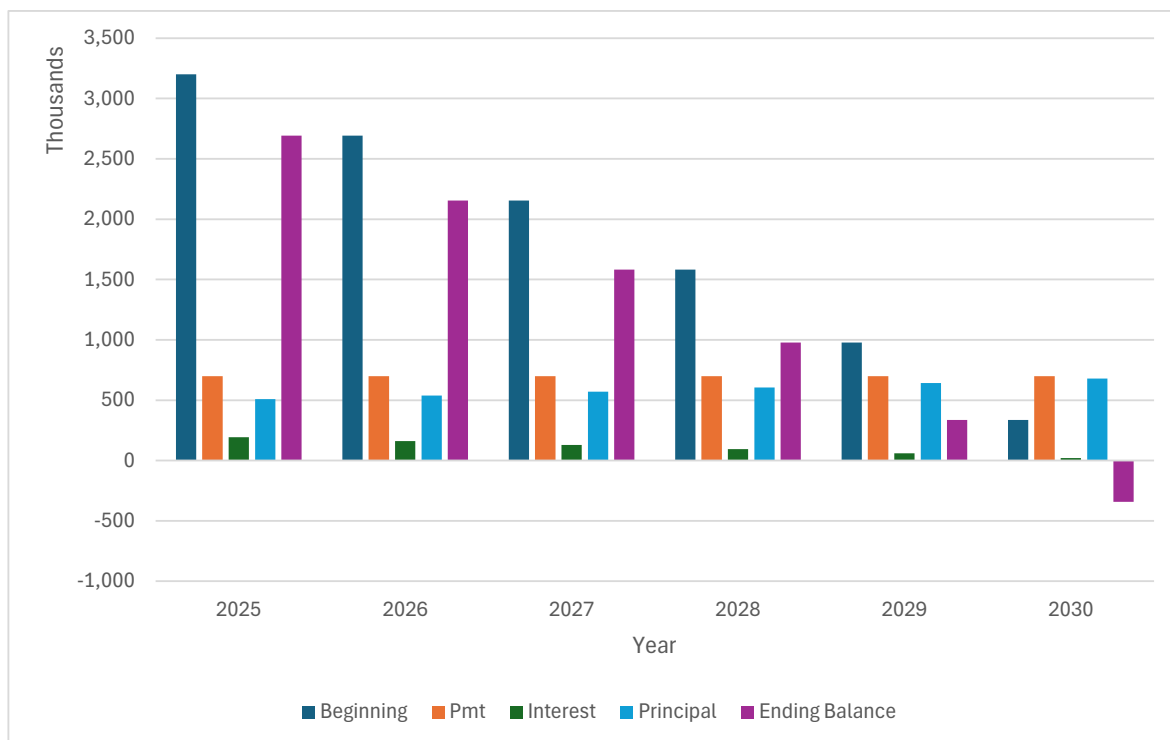


Claremont Yacht Club Loan Calculations

This is my base case scenario for Option 2. A total project cost of \$5,700,000

| | |
|-----------------------|------------------|
| Loan | 3,200,000 |
| Rate | 0.060 |
| Annual Payment | 700,000 |

| Year | Beginning | Pmt | Interest | Principal | Ending Balance |
|-------------|-----------|---------|----------|-----------|----------------|
| 2025 | 3,200,000 | 700,000 | 192,000 | 508,000 | 2,692,000 |
| 2026 | 2,692,000 | 700,000 | 161,520 | 538,480 | 2,153,520 |
| 2027 | 2,153,520 | 700,000 | 129,211 | 570,789 | 1,582,731 |
| 2028 | 1,582,731 | 700,000 | 94,964 | 605,036 | 977,695 |
| 2029 | 977,695 | 700,000 | 58,662 | 641,338 | 336,357 |
| 2030 | 336,357 | 700,000 | 20,181 | 679,819 | -343,462 |



Claremont Yacht Club Loan Calculations

This example assumes Option 2 is 15% over budget, ie total cost \$6,555,000

| | |
|--------------------|------------------|
| Loan | 4,055,000 |
| Rate | 0.060 |
| Annual Paym | 700,000 |

| Year | Beginning | Pmt | Interest | Principal | Ending Balance |
|-------------|-----------|---------|----------|-----------|----------------|
| 2025 | 4,055,000 | 700,000 | 243,300 | 456,700 | 3,598,300 |
| 2026 | 3,598,300 | 700,000 | 215,898 | 484,102 | 3,114,198 |
| 2027 | 3,114,198 | 700,000 | 186,852 | 513,148 | 2,601,050 |
| 2028 | 2,601,050 | 700,000 | 156,063 | 543,937 | 2,057,113 |
| 2029 | 2,057,113 | 700,000 | 123,427 | 576,573 | 1,480,540 |
| 2030 | 1,480,540 | 700,000 | 88,832 | 611,168 | 869,372 |
| 2031 | 869,372 | 700,000 | 52,162 | 647,838 | 221,534 |
| 2032 | 221,534 | 700,000 | 13,292 | 686,708 | -465,174 |

