The Seven Performance Projections

How They Are Calculated, How to Use Them, and Why They May or May Not Turn Out to Be Accurate

The following are brief definitions and explanations of the seven projections that appear in the Performance Projections box.

EPS (earnings per share) — defined as net profit divided by the number of shares outstanding at the end of the year. EPS is one of your company's annual performance targets and *one of the five performance variables that determine your company's current-year and overall game-to-date score*.

ROE (return on average shareholder equity) — defined as net profit divided by the average amount of shareholder' equity investment (average equity investment is equal to the sum of shareholder' equity at the beginning of the year and the end of the year divided by 2). ROE is one of your company's annual performance targets and *one of the five performance variables that determine your company's current-year and overall game-to-date score*.

Credit Rating—Company credit ratings are a function of three factors: (1) the debt-equity percentage; (2) the interest coverage ratio (defined as annual operating profit divided by annual interest expense); and (3) the current ratio (defined as current assets divided by current liabilities). The credit rating in the projections box is the ***projected*** credit rating for next year, given the current entries in the decision boxes for all the decision pages. Credit rating is one of your company's annual performance targets and *one of the five performance variables that determine your company's current-year and overall game-to-date score*.

Image Rating — The projected company image rating is based on (1) your company's expected P/Q rating for action cameras, (2) the expected P/Q rating for UAV drones, (3) the projected market shares for action cameras in the four geographic regions, (4) the projected market shares for UAV drones in the four geographic regions, and (5) your company's actions to display corporate citizenship and conduct operations in a socially responsible manner over a sustained period—a total of 11 projected outcomes for the upcoming year (all based on the currently entered decisions in the decision boxes on the various decision pages. Image rating is one of your company's annual performance targets and *one of the five performance variables that determine your company's current-year and overall game-to-date score*.

Net Revenues—The company's projected worldwide revenues (after all exchange rate adjustments and sales promotional discounts for AC cameras during sales promotion weeks) from the combined sales of both action cameras and UAV drones in all four geographic regions. Revenues are booked at the time of shipment, not when the company receives the cash payments for buyer purchases (which occurs following shipment).

Net Profit—The company's projected worldwide profit after all expenses and taxes on its sales of action cameras and drones in all four geographic regions.

Ending Cash—the company's projected end-of-year cash balance after disbursing funds to pay for all of the company's operating expenses, capital expenditures, any interest due on outstanding debt, any principal repayments on outstanding debt, profits taxes, and any dividends paid to shareholders. Be aware that capital expenditure decisions to add new workstations, expand assembly facility space, or shift to robotics-assisted assembly may result in a projected negative ending cash balance until company mangers take actions to raise sufficient funds to cover any overdrafts on the company's checking account by issuing new shares of common stock to raise equity capital and/or by taking out additional loans.

Note: *A projection of the company's year-end* ***Stock Price*** *is not generated. There are far too many variables (some within and some outside of your control) affecting the stock price to allow for an accurate projection of what it might turn out to be at the end of the year. When a decision round deadline passes and the actual results for the round are generated, the company's year-end stock price can be found on page 2 of the Camera & Drone Journal. Stock price is one of your company's annual performance targets and one of the five performance variables constituting your company's current-year and overall game-to-date score.*

Factors Driving the Performance Projections

All seven performance projections are governed by (1) the decision entries you have made on all the various decision entry pages for the current year and (2) the entries in the Competitive Assumptions sections at the bottom of the AC Camera Marketing and UAV Drone Marketing decision pages—these entries are critically important because they reflect the strength of the competitive efforts that companies, on average, are expected to exert in trying to capture sales and market share.

Here are three things you need to understand:

- The strength of the competitive efforts exerted by rivals on the competitive factors that govern camera/drone sales and market shares matched against the competitive efforts exerted by your company on the competitive factors affecting camera sales/market shares and the competitive factors affecting drone sales/market shares in the four regions *drives* the size of your company's projected **Net Revenues** and has a big impact on your company's image rating and ending cash balance. Beginning in Year 9, projected **Net Revenues** are also impacted by the special contract offers you have made to supply AC cameras to chain retailers (assuming you have checked "Yes" at the bottom of the Special Contract Offers decision screen to include the projected outcome of winning special contracts in the regions you have made offers—this is discussed further in the Help section for the Special Contract Offers decision screen).

- Your company's projected net revenues minus all the projected costs associated with your company's cost-related decision entries determine projected **Net Profit** which, in turn, drives the **EPS** projection and impacts the **ROE** projection.

- The projected **Credit Rating** is a function of the three credit-related measures that determine your credit rating—*there are trickle-down impacts on the projected credit rating coming from projected net revenues, net profit, EPS, and ending cash balance*.

Use the Performance Projections to Guide Your Decision-Making

As you begin to move through the decision entry pages, the projections of company performance do not merit much credibility because you have yet to update the decision entries on all pages. The projections gain credibility as you get close to a "final" set of decision entries.

As you make decision entries on a page, ***there is merit in watching the incremental changes (up or down) in the performance projections***. The incremental changes indicate whether the number you just entered is likely to translate into higher/lower revenues, higher/lower net profits and EPS, a higher/lower ROE, a better/worse credit rating, and so on. While the performance projections may not be indicative of what the actual outcomes are likely to be (until all your decision entries on all the pages are close to "final"), the directions of change in the projections are very useful in evaluating whether each new decision entry is likely to help or hurt company performance. Hence, it makes sense for you to rely on the up/down changes in the performance projections to help decide whether to retain a decision entry for the time being or see if a different decision entry results in better projections.

Tip: Once you have gone through the decision pages and entered what you think are reasonable entries for all the entry fields, scrutinize the 7 company performance projections to determine whether the projected outcomes of your strategy and decision-making are acceptable. If not, you need to go back through the decision pages, make different decision entries as seem appropriate, and continue until you arrive at a set of company projections that appears to be the best you can achieve.

But even then, these are still only projections—***the performance projections should never be viewed as guaranteed outcomes***. Why? Because the projections depend heavily on the anticipated strength of the competitive efforts of rival companies on each of the competitive factors that govern your company's unit sales and market share.

- Should your Competitive Assumptions entries turn out to closely match the actual competitive effort exerted by rivals, then the performance projections will closely match (but most probably not be exactly equal to) your company's actual performance (because not all of the Competitive Assumptions about the regional-average level of competitive effort will turn out to precisely match the actual regional-average level of competitive effort).

- Should some or many of your Competitive Assumptions turn out to underestimate the actual strength of the competitive efforts of rivals, then your company's actual performance will be lower than projected for some of the performance measures—an unhappy surprise (because of stronger-than-anticipated competitive efforts from rivals that resulted in your company selling fewer units and winning lower-than-projected market shares in one or more regions).

- Should some or many of your Competitive Assumptions turn out to overestimate the actual competitive strength encountered from rivals, then your company's actual performance will likely turn out to be better than projected for some of the performance measures (because of weaker-than-expected competition from rivals).

Tip: Abandon the false notion that the performance projections are somehow supposed to always match or at least closely match the actual outcomes. There is very little reason to expect that all the Competitive Assumptions entries you make will be spot-on identical to the actual regional-average levels of competitive effort exerted by all companies, although many may prove to be very close. Some, perhaps many, of the Competitive Assumptions about the strength of rivals' competitive efforts are likely to turn out higher or lower than the actual levels of competitive effort, thus resulting in your company's projected performance deviating from the actual performance by a little or maybe a lot.

The Accuracy of the Performance Projections

Unexpectedly strong competitive efforts from rivals on some/many competitively relevant factors will negatively impact your company's projected performance. Unexpectedly weak competitive efforts from rivals on some/many competitively relevant factors will likely result in your company's actual performance beating the projected performance. ***Whether rivals' actual competitive efforts will turn out to be unexpectedly strong or weak or in line with what was expected (as per your Competitive Assumption entries) will not be known until after the deadline for the decision round passes***, at which time the system will process the decision entries of all companies and determine the actual outcomes of competition in the marketplace. Since the accuracy of the Competitive Assumptions in each region cannot be known in advance, ***the seven performance projections are always going to be projections, never guaranteed outcomes.***