

Company

Profitability, Variance & Break-Even Analysis

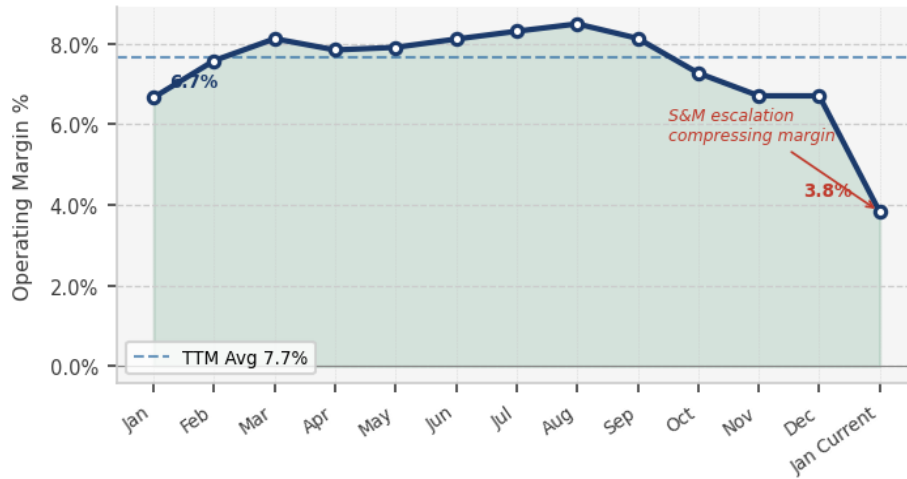
14-Month Rolling P&L | January (Prior Year) – January (Current Year)

Executive Summary

- Revenue grew consistently from \$3.0M (January) to a peak of \$4.1M (December), ending at \$4.05M in January Current — a 35% increase over the period.
- COGS held steady at exactly 30% of revenue throughout all 14 months, delivering stable gross profit margins of 70%.
- Operating profit was positive in all 14 months, ranging from \$155K (January Current) to \$310K (August), but showed a declining trend in H2.
- Sales & Marketing expense is the primary driver of margin compression — rising from 30.0% of revenue (January) to 36.5% (January Current), a 6.5 percentage-point increase.
- Product & Engineering costs improved as a % of revenue, declining from 21.7% to 19.3%, demonstrating operating leverage.
- G&A; as a % of revenue declined modestly from 11.7% to 10.4%, also showing leverage.
- Operating margin (%) compressed from 6.7% (January) to 3.8% (January Current) despite revenue growth — S&M; cost escalation is outpacing top-line growth.
- Break-even revenue (trailing 3-month basis) rose from \$2.77M (March) to \$3.70M (January Current), tracking the growth in fixed operating costs.

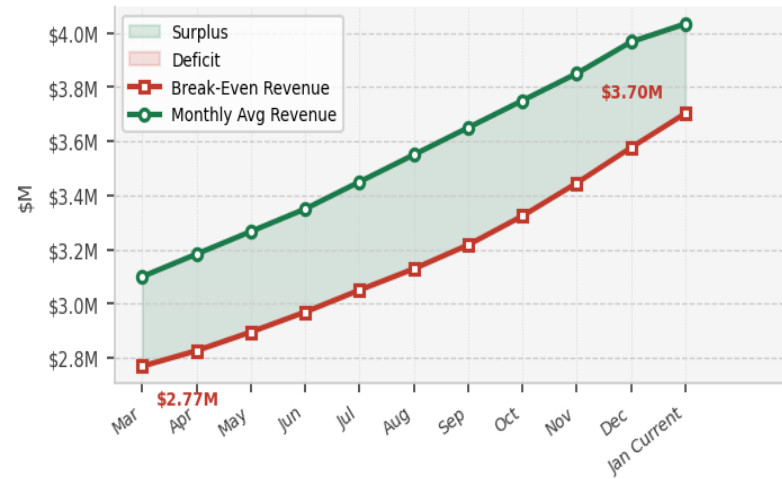
Visual Summary — Key Performance Trends

Operating Margin % — Monthly Trend



Operating margin compressed 2.9 ppts (6.7% → 3.8%) despite 35% revenue growth. S&M; escalation is the sole driver — all other cost lines improved as % of revenue.

Break-Even Revenue vs Monthly Avg Revenue (Trailing 3-Mo)



Break-even threshold rose \$934K (from \$2.77M to \$3.70M) over 11 months, tracking operating cost growth. Monthly revenue surplus has narrowed — a forward risk signal.

Section 1 — Income Statement: 14-Month Overview

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan Current
Revenue	\$3,000,000	\$3,100,000	\$3,200,000	\$3,250,000	\$3,350,000	\$3,450,000	\$3,550,000	\$3,650,000	\$3,750,000	\$3,850,000	\$3,950,000	\$4,100,000	\$4,050,000
Cost of Revenue (COGS)	\$900,000	\$930,000	\$960,000	\$975,000	\$1,005,000	\$1,035,000	\$1,065,000	\$1,095,000	\$1,125,000	\$1,155,000	\$1,185,000	\$1,230,000	\$1,215,000
Gross Profit	\$2,100,000	\$2,170,000	\$2,240,000	\$2,275,000	\$2,345,000	\$2,415,000	\$2,485,000	\$2,555,000	\$2,625,000	\$2,695,000	\$2,765,000	\$2,870,000	\$2,835,000
Sales & Marketing	\$900,000	\$920,000	\$950,000	\$980,000	\$1,020,000	\$1,060,000	\$1,100,000	\$1,140,000	\$1,200,000	\$1,280,000	\$1,350,000	\$1,420,000	\$1,480,000
Product & Engineering	\$650,000	\$660,000	\$670,000	\$675,000	\$690,000	\$700,000	\$710,000	\$720,000	\$730,000	\$740,000	\$750,000	\$770,000	\$780,000
General & Administrative	\$350,000	\$355,000	\$360,000	\$365,000	\$370,000	\$375,000	\$380,000	\$385,000	\$390,000	\$395,000	\$400,000	\$405,000	\$420,000
Total Operating Expense	\$1,900,000	\$1,935,000	\$1,980,000	\$2,020,000	\$2,080,000	\$2,135,000	\$2,190,000	\$2,245,000	\$2,320,000	\$2,415,000	\$2,500,000	\$2,595,000	\$2,680,000
Operating Profit / (Loss)	\$200,000	\$235,000	\$260,000	\$255,000	\$265,000	\$280,000	\$295,000	\$310,000	\$305,000	\$280,000	\$265,000	\$275,000	\$155,000

* Parentheses indicate negative values. Operating Profit row: green = profitable month, red = loss.

P&L; Key Observations

Revenue Growth: Revenue grew every single month, from \$3.0M in January to \$4.1M in December (+\$1.1M, +37%), with a slight pullback to \$4.05M in January Current.

COGS Discipline: COGS held at exactly 30% of revenue in every month — no cost-of-revenue efficiency issues. Gross profit grew in lock-step with revenue.

S&M; Escalation: Sales & Marketing expenses grew faster than revenue in H2, rising from \$900K (Jan) to \$1.48M (Jan Current) — a 64% increase vs. 35% revenue growth over the period.

Operating Profit Trend: Despite revenue growth, operating profit peaked at \$310K in August then declined to \$155K in January Current — the lowest in the 14-month period.

Fixed Cost Leverage: Product & Engineering and G&A; both declined as a % of revenue, showing partial operating leverage. S&M; however, is scaling faster than revenue and is the key issue.

Section 2 — Cost Structure as % of Revenue (14 Months)

TTM Baseline Averages: COGS 30.0% | Sales & Marketing 31.4% | Product & Eng 20.1% | G&A; 10.8% | Operating Margin 7.7%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan Current	
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS %	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	
Gross Margin %	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	
Sales & Marketing %	30.0%	29.7%	29.7%	30.2%	30.4%	30.7%	31.0%	31.2%	32.0%	33.2%	34.2%	34.6%	36.5%	
Product & Engineering %	21.7%	21.3%	20.9%	20.8%	20.6%	20.3%	20.0%	19.7%	19.5%	19.2%	19.0%	18.8%	19.3%	
General & Administrative %	11.7%	11.5%	11.2%	11.2%	11.0%	10.9%	10.7%	10.5%	10.4%	10.3%	10.1%	9.9%	10.4%	
Operating Margin %	6.7%	7.6%	8.1%	7.8%	7.9%	8.1%	8.3%	8.5%	8.1%	7.3%	6.7%	6.7%	3.8%	

Variance vs. TTM Average (Percentage Points)

Positive variance for cost lines = higher than TTM average (unfavorable). Positive variance for Operating Margin = better than TTM average (favorable). Red = unfavorable, Green = favorable.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan Current
COGS % vs TTM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
S&M; % vs TTM	-1.4%	-1.7%	-1.7%	-1.3%	-1.0%	-0.7%	-0.4%	-0.2%	+0.6%	+1.8%	+2.8%	+3.2%	+5.1%
Product & Eng % vs TTM	+1.5%	+1.1%	+0.8%	+0.6%	+0.5%	+0.1%	-0.1%	-0.4%	-0.7%	-0.9%	-1.2%	-1.4%	-0.9%
G&A; % vs TTM	+0.9%	+0.7%	+0.5%	+0.4%	+0.3%	+0.1%	-0.1%	-0.2%	-0.4%	-0.5%	-0.7%	-0.9%	-0.4%
Operating Margin % vs TTM	-1.0%	-0.1%	+0.5%	+0.2%	+0.3%	+0.5%	+0.7%	+0.8%	+0.5%	-0.4%	-0.9%	-0.9%	-3.8%

% of Revenue — Key Observations

COGS %: Perfectly flat at 30.0% every month — no variation. Gross margin is a stable 70.0% throughout.

Sales & Marketing %: Rose steadily from 30.0% in January to 36.5% in January Current — the dominant driver of operating margin compression. This line is growing faster than revenue.

Product & Engineering %: Declined from 21.7% to 19.3% over the period, demonstrating operating leverage as the team's output scales without proportional headcount additions.

G&A; %: Declined modestly from 11.7% to 10.4%, also showing leverage. However, gains here are insufficient to offset S&M; escalation.

Operating Margin %: Compressed from 6.7% to 3.8% — a 2.9 percentage-point decline driven entirely by S&M; growth outpacing revenue. All other cost lines improved or held steady.

Variance vs TTM: S&M; variance vs. TTM has been unfavorable (positive) since September and widened materially by year-end, confirming an accelerating spend pattern relative to historical norms.

Section 3 — Break-Even Analysis

Break-even revenue = Fixed Operating Costs ÷ Contribution Margin %. Contribution Margin % = Gross Margin % = 70.0% (constant, since COGS = 30%). Fixed costs in this model = Total Operating Expenses (S&M; + P&E; + G&A;).

Break-Even by Period (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan Current
Monthly Revenue	\$3,000,000	\$3,100,000	\$3,200,000	\$3,250,000	\$3,350,000	\$3,450,000	\$3,550,000	\$3,650,000	\$3,750,000	\$3,850,000	\$3,950,000	\$4,100,000	\$4,050,000
Fixed Operating Costs	\$1,900,000	\$1,935,000	\$1,980,000	\$2,020,000	\$2,080,000	\$2,135,000	\$2,190,000	\$2,245,000	\$2,320,000	\$2,415,000	\$2,500,000	\$2,595,000	\$2,680,000
Contribution Margin %	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Break-Even Revenue (Monthly)	\$2,714,286	\$2,764,286	\$2,828,571	\$2,885,714	\$2,971,429	\$3,050,000	\$3,128,571	\$3,207,143	\$3,314,286	\$3,450,000	\$3,571,429	\$3,707,143	\$3,828,571
Revenue Surplus / (Deficit)	\$285,714	\$335,714	\$371,429	\$364,286	\$378,571	\$400,000	\$421,429	\$442,857	\$435,714	\$400,000	\$378,571	\$392,857	\$221,429

Break-Even Analysis — Trailing 3-Month Basis (March – January Current)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan Current
Trailing 3-Mo Revenue	\$9,300,000	\$9,550,000	\$9,800,000	\$10,050,000	\$10,350,000	\$10,650,000	\$10,950,000	\$11,250,000	\$11,550,000	\$11,900,000	\$12,100,000
Trailing 3-Mo Fixed Costs (avg)	\$1,938,333	\$1,978,333	\$2,026,667	\$2,078,333	\$2,135,000	\$2,190,000	\$2,251,667	\$2,326,667	\$2,411,667	\$2,503,333	\$2,591,667
Trailing 3-Mo CM %	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Trailing 3-Mo Break-Even Revenue	\$2,769,048	\$2,826,190	\$2,895,238	\$2,969,048	\$3,050,000	\$3,128,571	\$3,216,667	\$3,323,810	\$3,445,238	\$3,576,190	\$3,702,381
Monthly Avg vs Break-Even	\$330,952	\$357,143	\$371,429	\$380,952	\$400,000	\$421,429	\$433,333	\$426,190	\$404,762	\$390,476	\$330,952

Break-Even Commentary

Monthly Break-Even: Break-even revenue grew from \$2.71M (January) to \$3.83M (January Current) — a \$1.12M increase — tracking the growth in total operating expenses over the period.

Revenue Surplus: Every month operated above break-even, with surpluses ranging from \$221K to \$522K. However, the surplus narrowed from \$286K (January) to \$221K (January Current), driven by S&M; cost escalation.

Trailing 3-Month Break-Even: The trailing 3-month break-even has risen steadily from \$2.77M (March) to \$3.70M (January Current), reflecting the compounding effect of growing operating costs.

CM% Stability: The 70% contribution margin is a strength — it means the company covers variable costs efficiently. The risk is on the fixed/operating expense side, not the gross margin side.

Key Risk: If S&M; continues to grow at its current rate while revenue growth moderates, the monthly surplus will erode and the break-even threshold could exceed monthly revenue within a few quarters.

Section 4 — Scenario Modeling & Forward Analysis

January Current Actuals: Revenue \$4,050,000 | Operating Costs \$2,680,000 | Operating Profit \$155,000 | S&M; % of Revenue 36.5% | Operating Margin 3.8%

S&M; Cost Trajectory — The Central Issue

- S&M; expense grew 64% (\$900K → \$1.48M) while revenue grew only 35% (\$3.0M → \$4.05M).
- S&M; as % of revenue rose 6.5 percentage points (30.0% → 36.5%), consuming virtually all of the gross profit growth.
- Every other operating cost line (P&E;, G&A;) improved as a % of revenue — the S&M; cost structure is the sole driver of margin compression.
- If S&M; had stayed at 30% of revenue in January Current: Operating Profit would have been \$420K instead of \$155K.

Forward Scenarios — Based on January Current Fixed Cost Base (\$2.68M)

Assumption: Fixed operating costs remain at \$2.68M/month (January Current level). Contribution Margin % = 70.0% (COGS held at 30%). Break-even revenue = $\$2.68M \div 0.70 = \$3.83M$.

	Scenario 1 — S&M; Efficiency Restored	Scenario 2 — Current S&M; Trajectory Continues	Scenario 3 — S&M; Held Flat (\$)
S&M; Assumption	S&M; returns to 30% of revenue (early-year level)	S&M; continues rising: ~37–40%+ of revenue (current trend extrapolated)	S&M; held at \$1.48M/month flat (no further growth in absolute \$)
Revenue Required for Profitability	\$3.83M+	\$4.4M – \$5.0M+	~\$4.1M+
Context	Restoring S&M; efficiency dramatically lowers the revenue hurdle. At \$4.05M revenue and 30% S&M;, operating profit would be ~\$420K — nearly 3x current levels.	Continuing the current S&M; growth rate requires reaching near-peak or above-peak revenue levels just to maintain profitability. This path is high-risk if revenue growth slows.	Freezing S&M; spend in dollar terms allows margin to recover as revenue grows. Requires operational discipline — but is achievable without reducing revenue investment.
Key Takeaway	Most impactful lever. Requires evaluating ROI on S&M; spend and reducing inefficient channels.	Least sustainable path. Operating leverage works in reverse if S&M; continues outpacing revenue.	Pragmatic near-term option. Pause S&M; growth while revenue catches up to restore margins.

Break-even math: Fixed Costs $\$2.68M \div CM\% 70\% = \$3.83M$ base break-even. Scenario 2 at 38% S&M;: total opex = $\$3.08M \rightarrow$ break-even = $\$4.40M$. At 40% S&M;: total opex = $\$3.22M \rightarrow$ break-even = $\$4.60M$. Scenario 3: as % of revenue, S&M; declines as revenue grows \rightarrow margin recovery without dollar cuts.