



Clear **PATH** To Cash

The Home Run Financial System

As seen in The 7
Minute Conversation

Sample 5 Year Income Statement Data

Sample Company Income Statement (in 000's)

	<u>Year x1</u>	<u>Year x2</u>	<u>Year x3</u>	<u>Year x4</u>	<u>Year x5</u>
1 SALES	\$8,100	\$7,500	\$7,600	\$6,800	\$7,100
2 Cost of Goods Sold	<u>(5,468)</u>	<u>(5,070)</u>	<u>(5,252)</u>	<u>(4,658)</u>	<u>(4,920)</u>
3 GROSS PROFIT	\$2,632	\$2,430	\$2,348	\$2,142	\$2,180
4 OPERATING EXPENSES					
5 Owners Salary	\$90	\$70	\$50	\$50	\$50
6 Other Salaries	778	673	620	515	508
7 Commissions	405	375	380	340	350
8 Salary Related Expense	316	298	262	226	220
9 Advertising	83	75	72	70	67
10 Bad Debts	22	16	19	11	18
11 Business Taxes & Licenses	80	76	77	69	73
12 Depreciation	105	146	150	176	183
13 Insurance	95	94	96	102	105
14 Legal & Accounting	21	23	22	26	24
15 Maintenance & Repair	59	51	60	63	65
16 Office Expense	25	23	24	22	23
17 Telephone & Utilities	129	135	143	149	158
18 Travel & Entertainment	54	40	41	49	52
19 Vehicle Expense	47	49	52	61	64
20 Other Admin Expenses	<u>81</u>	<u>77</u>	<u>83</u>	<u>79</u>	<u>80</u>
21 TOTAL OPERATING EXPENSES	<u>\$(2,390)</u>	<u>\$(2,221)</u>	<u>\$(2,151)</u>	<u>\$(2,008)</u>	<u>\$(2,040)</u>
22 OPERATING PROFIT	\$242	\$209	\$197	\$134	\$140
23 Interest Expense	<u>(116)</u>	<u>(162)</u>	<u>(155)</u>	<u>(131)</u>	<u>(129)</u>
24 NET PROFIT BEFORE TAX	\$126	\$47	\$42	\$3	\$11
25 Income Tax	(32)	(7)	(6)	(1)	(2)
26 NET PROFIT AFTER TAX	<u>\$94</u>	<u>\$40</u>	<u>\$36</u>	<u>\$2</u>	<u>\$9</u>

Sample 5 Year Balance Sheet Data

Sample Company Balance Sheet (in 000's)

	<u>Year x1</u>	<u>Year x2</u>	<u>Year x3</u>	<u>Year x4</u>	<u>Year x5</u>
1 ASSETS					
2 Cash	\$102	\$76	\$69	\$33	\$85
3 Accounts Receivable	669	688	661	756	654
4 Inventory	1,116	1,109	1,250	1,059	1,217
5 Prepaid Expenses	105	97	99	88	93
6 Total Current Assets	\$1,992	\$1,970	\$2,079	\$1,936	\$2,049
7 Land & Building	1,085	1,540	1,560	1,600	1,600
8 Vehicles	104	129	138	165	165
9 Equipment	576	866	883	900	920
10 Furniture & Fixtures	89	118	129	176	186
11 Gross Fixed Assets	\$1,854	\$2,653	\$2,710	\$2,841	\$2,871
12 Less Accumulated Dep.	(682)	(828)	(978)	(1,154)	(1,337)
13 Net Fixed Assets	\$1,172	\$1,825	\$1,732	\$1,687	\$1,534
14 TOTAL ASSETS	\$3,164	\$3,795	\$3,811	\$3,623	\$3,583
15 LIABILITIES & EQUITY					
16 Notes Payable - Bank	\$211	\$656	\$599	\$619	\$589
17 Accounts Payable	558	630	691	764	750
18 Accrued Expenses	203	188	191	170	180
19 Total Current Liabilities	\$972	\$1,474	\$1,481	\$1,553	\$1,519
20 Long-Term Debt	814	903	876	614	599
21 TOTAL LIABILITIES	\$1,786	\$2,377	\$2,357	\$2,167	\$2,118
22 Common Stock	250	250	250	250	250
23 Retained Earnings	1,128	1,168	1,204	1,206	1,215
24 EQUITY	\$1,378	\$1,418	\$1,454	\$1,456	\$1,465
25 TOTAL LIABILITIES & EQUITY	\$3,164	\$3,795	\$3,811	\$3,623	\$3,583

Home Run Conversation **Worksheet**

Trends

Expense Control

Debt to Equity Ratio

EBITDA / LTD Availability

Mis-Financed Assets

Cash Flow Activity Pattern

7 Minute Conversation Cheat Sheet - TRENDS

SALES

1. Are they growing, declining or staying flat?
2. Ask why the trend seems to be moving this way.
3. Is it normal or is this a problem that needs to be addressed?
4. Stay focused on getting customers to buy – right product/service for the right price.

GROSS PROFIT

1. Which way is gross profit trending?
2. Is it moving in the same direction as sales?
3. Should it be or why are they different?
4. Ask about vendor pricing, relationships, efficiency and pricing strategy.

OPERATING EXPENSE

1. Which direction is operating expense trending?
2. What has the company increased and is it needed?
3. What are the current cuts or items that need justification for staying?
4. Compare operating expense categories to industry averages, like advertising.

NET PROFIT

1. Is this company making money or losing money?
2. What is the trend? Increasing or falling?
3. What are the prime contributors – gross profit, expenses, sales or all?

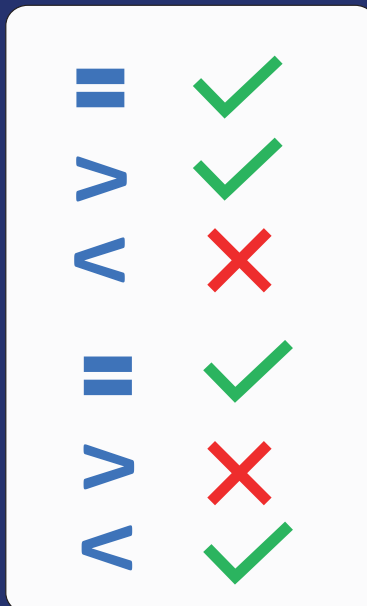
7 Minute Conversation Cheat Sheet

Expense Control

GP

Use this chart to evaluate differences in movements

OE



7 Minute Conversation Cheat Sheet

Debt To Equity

Debt To Equity Ratio

Target D/E Ratio

2.5

Enter your current debt to equity ratio by dividing your Total Liabilities by your Total Equity from your Balance Sheet. Then compare your result. 2.5 is a good target ratio to achieve. Lower than 3 is GOOD and shows less risk. Higher than 3 indicates more risk to bankers or investors.

Total Liabilities

Total Equity

Enter Total Liabilities and Total Equity. Then divide the numbers. Enter the result in the Top Left Box.

↑
2.5
↓

The higher this ratio, the more risk a lender sees

The lower this ratio, the less risk there could be

A 2.5 means that for every \$1 an owner has invested in their company; they have let the bank invest an additional \$2.50.

7 Minute Conversation Cheat Sheet

EBITDA

Earnings
(Net Profit After Tax)

BEFORE

+

Interest

Taxes

=

EBITDA

Depreciation

Amortization

EBITDA

Long Term Debt Capacity

X 3

LTD Capacity

LTD on Balance Sheet

-

**Long Term Debt
Capacity Available**

7 Minute Conversation Cheat Sheet

Mis-Matched Financing

This formula look for assets a company has bought using the wrong type of loan product. Assets that can be depreciated should be bought with cash, long term debt or a combination of the two. Compare the change Δ in these accounts over the past 1-5 years.

The Length Of The Loan Should Match The Life Of The Asset

Δ Gross Fixed Assets

Δ Long Term Debt

Δ Retained Earnings

$$\Delta \text{ Gross Fixed Assets} = \Delta \text{ Long Term Debt} + \Delta \text{ Retained Earnings}$$

$$\Delta \text{ Gross Fixed Assets} = \Delta \text{ Long Term Debt}$$



MATCH! Looks like you have financed all your assets using the proper financing product.



NO MATCH! You may be paying more interest than necessary. Contact a banker for help.

7 Minute Conversation Cheat Sheet

Cash Flow Activity

Operating Activities Investing Activities Financing Activities

Enter whether the amount shown in the summary section of the cash flow statement is either a positive number or a negative number in the boxes above. Then compare the three-symbol pattern to the corresponding pattern in the legend below.

	Operating Activities	Investing Activities	Financing Activities	General Explanation
#1	+	+	+	Company is using cash generated from operation and from sale of assets and from financing to build up pile of cash – very liquid company- possibly looking for acquisition
#2	+	-	-	Company is using cash flow generated from operations to buy fixed assets and to pay down debt or pay owners
#3	+	+	-	Company is using cash from operations and from sale of fixed assets to pay down debt or pay owners
#4	+	-	+	Company is using cash from operations and from borrowing (or from owner investment) to expand
#5	-	+	+	Company's operating cash flow problems are covered by sale of fixed assets and by borrowing or by shareholder contributions
#6	-	-	+	Company is growing rapidly but has shortfalls in cash from operations and from purchase of fixed assets financed by long term debt or new financing by owners
#7	-	+	-	Company is financing operating cash flow shortages and payments to creditors and/or stockholders via sale of fixed assets
#8	-	-	-	Company is using cash reserves to finance operation shortfall and pay long term creditors and/or investors