

CONNECT THE DOTS.

Aligning your Strategy to your Financial Resources

Presenter: Jon Moreau, MoreValue Financial Consultants

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Introduction

Jon Moreau



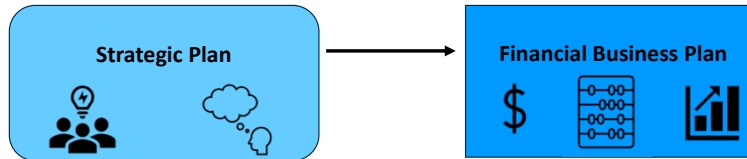
- CFO with over 28 years of Financial Executive Experience
- Public Accounting Experience
- Industry Experience: Heavy Mfg., Light Mfg., Foundry, Construction, Assembly, Food, Service Industry
- Cost Accounting Background
- M&A Transaction – Private Equity Experience
- WMEP External Service Provider
- Owner of MoreValue Financial Consulting LLC



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What are we talking about today?



- Where are we taking the business?
- Are we growing, expanding, focusing on profitability?
- Who developed it?
- Owner, Small Team, 2 Day offsite with Management Team?



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- Develop a Profit & Loss Statement by Month
- Develop Capital Spending by Month
- Develop a Balance Sheet by Month
- Are you cash flowing? Need financing?



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What Do We Need to Think About? Resources – Timing – Ramp Up - Cash

- **Machine Capacity** – Do you have enough capacity to meet your projected sales? Will you need to purchase additional equipment?
- **People** – How many employees do you need? When do you plan to hire? How long until they are efficient at their role?
- **Facilities** – Do you have enough space? Do you need to rent/build additional space? Space for additional inventory? Can you rent out unused space?
- **When Will You** - Add Employees, Order and Receive New Equipment, Add Space
- **How Long to Ramp Up** - Employee efficiency, New Equipment up and Running, New Space Occupied
- **Cash** – How will you Finance the Growth?

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Profit and Loss Statement

	Total Year Plan	% of Sales
Revenue	\$500,000	100%
Variable Costs		
Direct Material	\$200,000	40%
Direct Labor	\$50,000	10%
Variable Overhead	\$100,000	20%
Total Variable Costs	\$350,000	70%
Contribution Margin	\$150,000	30%
Fixed Costs	\$50,000	10%
Selling, General and Admin. Costs	\$40,000	8%
EBITDA	\$60,000	12%
Interest	\$0	0%
Taxes	\$15,000	3%
Depreciation	\$5,000	1%
Net Income	\$40,000	8%

- **Revenue Streams** – Products, Service, Distribution
- How are **Direct Materials** different by stream
- Different **Labor** requirements by stream
- **Variable Overhead** - Different machines, supplies, shipping requirements, inspection
- **Fixed Costs** – Building Related: Rent, Utilities, Property Taxes. Can also include fixed labor such as supervisors, maintenance.
- **S,G&A** – Leadership, Support Departments, Office Related, Insurance
- **EBITDA** – Earnings before Interest, Taxes, Depreciation & Amortization. Good indicator of Business Value.



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The Process

- **Determine Revenue Streams** – Drivers: Units, Lbs., Machine Hours...
- **Discuss Variable Costs** - Direct Material, Direct Labor, Variable Overhead - How they are impacted by growth / decline in Revenue.
- **Discuss Fixed Overhead Costs** – How are they impacted by growth / decline in Revenue.
- **Determine Selling, General and Administrative Cost Structure** – Staff Changes, Insurance, Advertising, Office Expenses, Professional Services
- **Are There Planned Capital Expenditures** – Equipment, Software, Upgrades
- **Major Balance Sheet Items** – Accounts Receivable (DSO), Inventory Balances (Turns/Days), Accounts Payable (DPO)



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Revenue Streams

- **Create a Variable Driven Template for Revenue**

- How many revenue streams and what are the drivers?

	Plan	Plan	Plan
	Jan-22	Feb-22	Mar-22
Product Sales			
Product #1 - Units	300	300	300
Avg. Price	\$100.00	\$100.00	\$100.00
Revenue	\$30,000	\$30,000	\$30,000
Product #2 - Units	250	250	250
Avg. Price	\$30.00	\$30.00	\$30.00
Revenue	\$7,500	\$7,500	\$7,500
Accessory Sales - Multiplier * #2 Sales	3.00	3.00	3.00
Revenue	\$22,500	\$22,500	\$22,500
Total Unit Sales Revenue	\$60,000	\$60,000	\$60,000

Other Examples:

- 1.) Lbs. sold * \$ per Lb.
- 2.) Machine Hours * Rev. per Hour
- 3.) Billed Hours * Rate per Hour
- 4.) Specific Customer Volume



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Variable Manufacturing Costs

- **Direct Material**

- Is it cost per lb., % of Revenue...
- Do you anticipate cost increases / decreases
- Tied to Revenue calculation to feed the P&L



- **Direct Labor**

- Schedule out labor by dept. or area with rates and hours
- What month are additions / deletions planned
- Are there annual merit increases
- Direct Hours vs. Indirect Hour %



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Material and Labor Sheets (Examples)

Material %	Plan Jan-22	Plan Feb-22	Plan Mar-22	Plan Apr-22	Plan May-22	Plan Jun-22	Plan Jul-22	Plan Aug-22	Plan Sep-22	Plan Oct-22	Plan Nov-22	Plan Dec-22	Total
Product Line #1	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	
Product Line #1 Revenue	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Material \$	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$240,000
Product Line #2	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
Product Line #2 Revenue	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Material \$	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$210,000
Material \$													
Price per Lb.	\$ 0.85	\$ 0.85	\$ 0.85	\$ 0.90	\$ 0.90	\$ 0.90	\$ 0.95	\$ 0.95	\$ 0.95	\$ 1.00	\$ 1.00	\$ 1.00	
Lbs. Sold (Revenue)	50,000	50,001	50,002	50,003	50,004	50,005	50,006	50,007	50,008	50,009	50,010	50,011	
Material \$	\$ 42,500	\$ 42,501	\$ 42,502	\$ 45,003	\$ 45,004	\$ 45,005	\$ 47,506	\$ 47,507	\$ 47,508	\$ 50,009	\$ 50,010	\$ 50,011	\$555,063

Employee	Hourly Rate	# of Emp.	Hours Per Mth.	O.T. Hrs./Mth.	Monthly Wages	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Total		
																			Merit Increase	3.0%
																			Shop Labor	
Cell #1 Staffing	\$18.00	6	176	25	\$19,008	\$19,008	\$19,008	\$19,008	\$19,008	\$19,008	\$19,008	\$19,008	\$19,008	\$19,008	\$19,578	\$19,578	\$19,578	\$229,807		
Cell #1 New	\$16.00	1	176	25	\$2,816	\$0	\$0	\$0	\$0	\$0	\$0	\$2,816	\$2,816	\$2,816	\$2,900	\$2,900	\$2,900	\$17,149		
Cell #2 Staffing	\$22.00	10	176	10	\$38,720	\$38,720	\$38,720	\$38,720	\$38,720	\$38,720	\$38,720	\$38,720	\$38,720	\$38,720	\$39,882	\$39,882	\$39,882	\$488,125		
Cell #2 New	\$18.00	1	176	10	\$3,168	\$0	\$0	\$3,168	\$3,168	\$3,168	\$3,168	\$3,168	\$3,168	\$3,168	\$3,263	\$3,263	\$3,263	\$31,965		
						\$57,728	\$57,728	\$60,896	\$60,896	\$60,896	\$60,896	\$63,712	\$63,712	\$63,712	\$65,623	\$65,623	\$65,623	\$747,046		



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Variable and Fixed Overhead

• Variable Overhead

- Determine if there is a driver such as % of wages, % of revenue. Each line item has a driver or is a fixed amount.
- For example, Benefits = % of wages, Supplies, Consumables = % of Revenue. Use history to determine a trend.

• Fixed Overhead

- Rent for the year, is there an escalator
- Average Utilities, Property Taxes, Building Maintenance
- Fixed factory related wages



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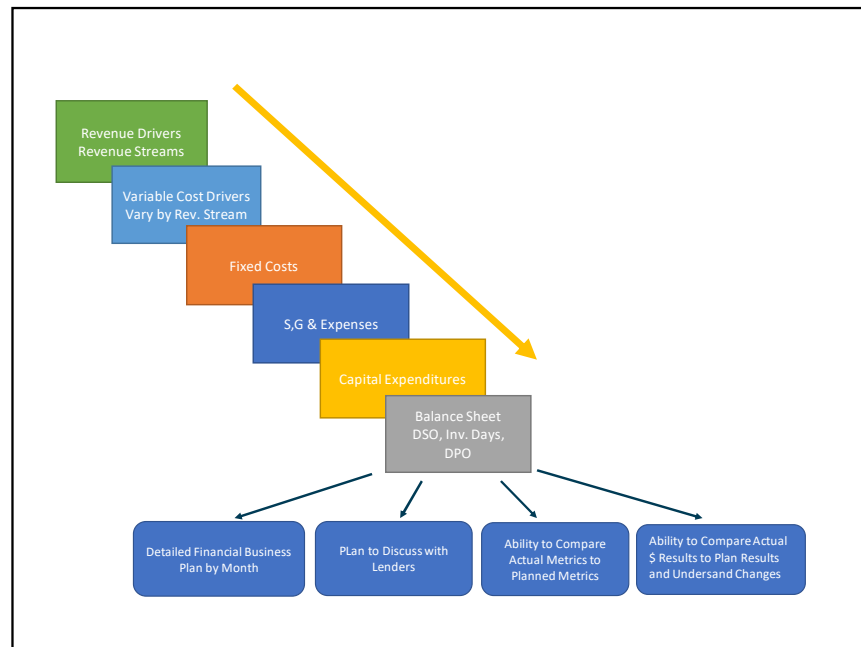
Balance Sheet – What Cash do you Need?

- **Total Balance Sheet needs to be Planned**
 - Can focus on main items: Accounts Receivable, Inventory, Accounts Payable, Capital Expenditures (Fixed Assets)
- **Will Utilize Historical Metrics** – Days Sales Outstanding, Days in Inventory, Days Payable. Easy to see impact as they increase/decrease.
- **Cash / Borrowing** – With a Finalized P&L and Planned Balance Sheet, your Cash or Borrowing balance is automatically calculated. How much cash will growth require and how long until cash flow is positive



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How and Why

- **Work with the right financial professional that can ask the right questions and develop a variable driven plan to accurately reflect the impacts of changes to your business.**
- **Use this Plan to compare your actual results to each month to better understand why you over or under performed to your expectations.**
 - Monthly comparison of Actual \$ Results vs. Plan
 - Monthly comparison of Actual Metrics vs. Planned Metrics
- **You will have a professional looking plan to facilitate discussions with your lenders leading to easier financing and potentially better rates.**
- **Future years will become easier to plan and month-end results will not be a surprise if you understand the metrics that drive your business.**



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Other Services

- **Financial Modeling** – Add-on acquisitions, changes in customer base / products / markets
- **Advisor to Business Leader** – Assess monthly financial results, determine metrics, discuss strategic decisions
- **Financing Needs** – Assist in obtaining conventional debt or outside financing through development of a business plan that can be presented to lenders/investors
- **Cash Forecasting**
- **Mergers & Acquisitions** – Project manage for either sell side or buy side transaction



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