

# Managing **S**uccess

By The Number\$



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## Why All The Fuss?

- Can Profitable Companies Fail?  
-YES!
- What About High Cash Flow?  
-YES!
- Profitable AND High Cash Flow?  
-No! (and 'Yes')



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## An Important Distinction

- Net Profit
  - simply what's left after all expenses for a given period of activity are subtracted from revenue
- Cash flow
  - the amount of money that a business receives and spends during a given period of activity



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## First - A Quick Review

- Balance Sheet
  - what a company owns & what it owes
- Income Statement
  - represents a promise & an agreement
- Cash Flow Statement
  - settlement where cash changes hands



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## Balance Sheet

- What a company owes & owns
- A snapshot in time
- What does it show?
  - Solvency: are assets at least equal to liabilities?
  - Liquidity: can it meet short-term obligations?
  - Assets: how much inventory, A/R, equipment do you have?
  - Liabilities: how much do you owe?
  - Equity: how much belongs to you!



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## Income Statement

- Tracks the promise and agreement part of a transaction
- Shows whether a company made money over a given period
- What is accrual?
- Useful...and, dangerous
  - It's an abstract document
- Limited even in cash-based accounting



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## Cash Flow Statement

- Real money – it's in the bank
- Not abstract but concrete
- Useful to prove viability to lenders
- The settlement part of the transaction – accounts are paid
- Three parts:
  - Operating Cash Flow
  - Investing Cash Flow
  - Financing Cash Flow
  - $OCF + ICF + FCF = \text{change in cash}$
  - $\text{ending cash} = \text{begin. cash} + \text{change}$

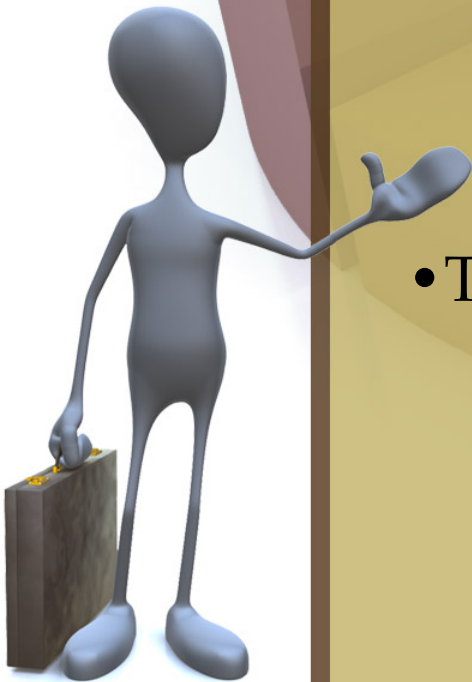


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## Operating Cash Flow

- Simply cash related to your business' operations
  - Cash from sales
  - Cash paid to suppliers
  - Cash paid for MSG&A expenses
  - Cash paid to service debt
  - Cash paid to income tax
- The 'real' bottom line



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## Investing & Financing Cash Flows

- Investing Activities (Acquisitions)
  - Equipment, property, vehicles, etc.
  - Depreciation is excluded (only considering cash here)
  - Patents and GICs included
  - Generally negative but...
- Raising (& Paying) Capital
  - Money borrowed or invested
  - Cash paid to investors, owners financiers
  - Excludes interest paid (part of OCF)

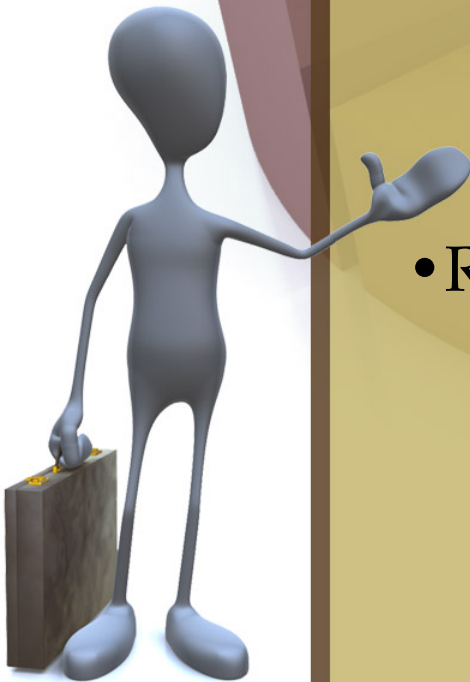


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## The Three Bottom Lines

- Net Profit
  - The one everyone pays attentions to
  - Does not show how much cash you have
- Operating Cash Flow
  - The 'real' cash you are generating from operations
  - It is based upon real events
- Return On Assets (ROA)
  - Net Profit divided by average assets

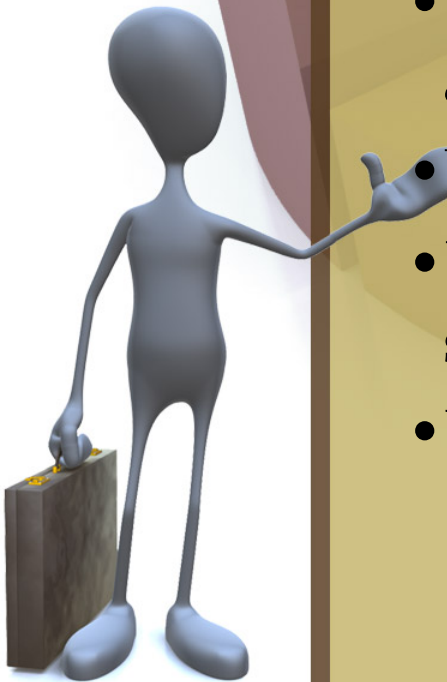


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## Outcomes Of Analysis

- Are sales on target?
- Compare % to industry averages
- Operating at a loss isn't a sin but there must be a plan
- Look deep - did you fail to pass along increases in costs? Training?
- Who looks after invoicing/collect.?
- Buying inventory in bulk - do you saving anything?
- Did you buy too many assets?

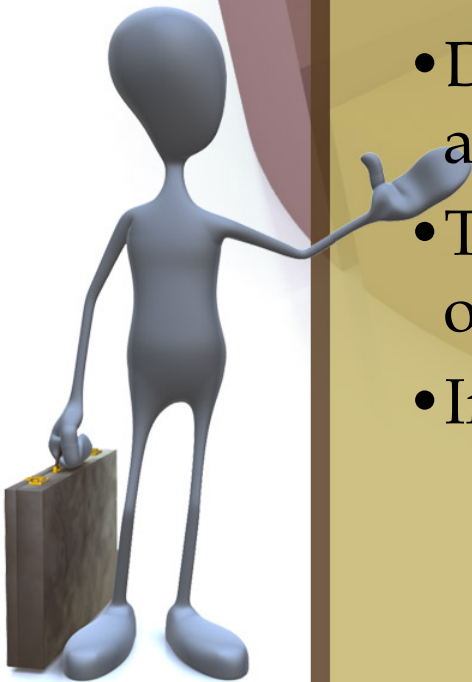


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## Some Final Thoughts

- Every company needs to make a profit, generate cash and produce a return on its investment (ie. in assets) to be competitive
- Analysis on 3 years of statements
- Do you know what discounting actually costs?
- The fundamental job of a business owner is to convert profit into cash
- If a modest amount of assets...



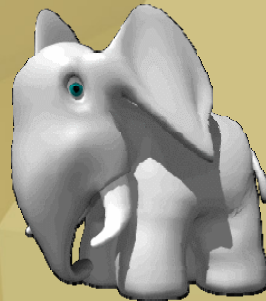
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## So...The Elephant

- You could say there are THREE!

Operating  
Cash Flow



Net  
Profit

Return  
On Assets

