

# Scaling Up Cash

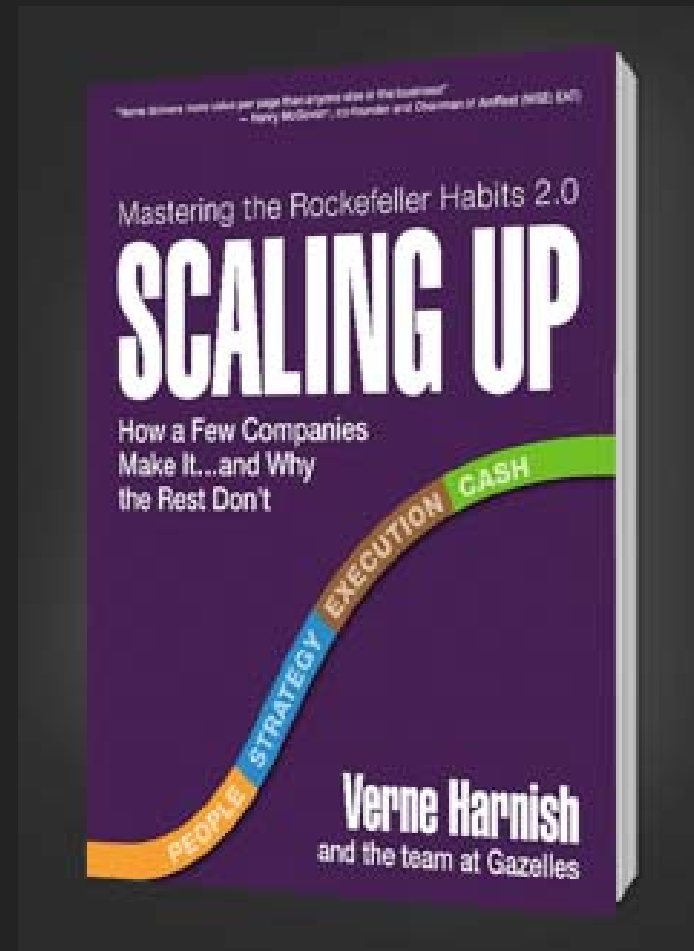
Applying the Cash Decision Questions to:

- Scale Up Cash
- Profitability
- The Wealth Building Capacity of your business

Presented by:

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Author of “Simple Numbers, Straight Talk, Big Profits” and contributor to Scaling Up (Chapter 13)



# Four Decisions™

The four decisions to drive and scale growth



PEOPLE



STRATEGY



EXECUTION



CASH

# Four Decisions™

The four decisions to drive and scale growth



PEOPLE



STRATEGY



EXECUTION



CASH

# Cash Decision Questions

1. The business is structured and operated as if it were being sold tomorrow to maximize market value.
2. Profitability is running at 3x industry average.
3. Cash flow is a high priority i.e. we're focused on continually improving the business model to generate more cash as the business scales.

# Cash Decision Questions

4. We receive timely and accurate reporting of key data for our daily, weekly, monthly, and quarterly meeting rhythms.
5. We know profitability, gross margin, and revenue by customer, project, location, line of business, team and/or employee where applicable

# Cash Decision Questions

6. Individual line items on the P&L and Balance Sheet have people specifically accountable for each.
7. We have a rolling forecast looking forward 12 to 18 months updated at least monthly.
8. We have 3x to 10x the cash reserves compared to our competitors.

# CASH DECISION #1

**THE BUSINESS IS STRUCTURED AND OPERATED AS IF IT WERE BEING SOLD TOMORROW TO MAXIMIZE MARKET VALUE.**

# Running a “Ready to Sell” Business

- Effective Business Structure (legal and tax) to either keep or sell
- Operational excellence with documented processes that being followed
- Knowing and monitoring what drives market value for your business
- Regularly scrub internal financials for “deal adjustments”



# 3 Essential Business Value Data Points

- Economic Value – What is the business worth to you on a cash flow/ROE basis without selling
- Current Market Value similar businesses in size and industry are selling for
- Replacement Return needed if you sold at Market Value

# Economic Value

- See Chapter 9 of “Simple Numbers, Straight Talk, Big Profits” by Greg Crabtree
- Developed to manage shareholder or management buyout concepts based on after tax cash flow and a reasonable time frame for purchase
- 5 years to buyout a 50% owner, 10 to 14 years depending on interest rate for a 100% sale
- Formula – 3 times Net Income Plus Equity

# Current Market Value

- Can be a multiple of EBITDA (after deal adjustments) (5 is generally considered neutral)
- Can be a multiplier of Revenue, Gross Margin or Value per qualified customer
- If you are carrying debt, you generally have to payoff debt from proceeds or adjust price if they keep the debt

# Replacement Return Needed

- Calculate “Net After Tax Proceeds” (use an average 25% tax rate for illustration)
- Divide Net Income (after deal adjustments) by the Net After Tax proceeds
- If replacement return needed is above 15%, reconsider whether selling is the best decision or are you at a point in life where you will not need to consume more than the annual earnings of the replacement investment

<b>Economic Value Example</b>			
	Retail/Mfg	Distributor	Services
Revenue	10,000,000	10,000,000	10,000,000
Gross Margin	4,500,000	2,000,000	9,500,000
Net Income	1,000,000	200,000	1,200,000
<i>Net Income as % of Revenue</i>	<i>10%</i>	<i>2%</i>	<i>12%</i>
<i>Net Income as % of Gross Margin</i>	<i>22%</i>	<i>10%</i>	<i>13%</i>
Debt	500,000	100,000	-
Equity	1,000,000	400,000	2,000,000
<b>Economic Value Calculation:</b>			
3 x Net Income	3,000,000	600,000	3,600,000
Equity	1,000,000	400,000	2,000,000
Estimated Value	4,000,000	1,000,000	5,600,000
<i>Annual Return on Equity</i>	<i>100%</i>	<i>50%</i>	<i>60%</i>
<i>Replacement Return Needed</i>	<i>33%</i>	<i>27%</i>	<i>29%</i>
Annual Net After Tax Available for Payment	600,000	120,000	720,000
Years to buyout 100%	10	12	11
Years to buyout 50%	5	5	6

<b>Market Value Example - Neutral</b>			
	Retail/Mfg	Distributor	Services
Revenue	10,000,000	10,000,000	10,000,000
Gross Margin	4,500,000	2,000,000	9,500,000
Net Income	1,000,000	200,000	1,200,000
<i>Net Income as % of Revenue</i>	10%	2%	12%
<i>Net Income as % of Gross Margin</i>	22%	10%	13%
Debt	500,000	100,000	-
Equity	1,000,000	400,000	2,000,000
Multiple of Net Income			
5 x Net Income	5,000,000	1,000,000	6,000,000
Debt	(500,000)	(100,000)	-
Estimated Value	4,500,000	900,000	6,000,000
<i>Annual Return on Equity</i>	100%	50%	60%
<i>Replacement Return Needed</i>	30%	30%	27%
Annual Net After Tax Available for Payment	600,000	120,000	720,000
Years to buyout 100%	11	11	12
Years to buyout 50%	6	6	6

<b>Market Value Example - Premium</b>			
	Retail/Mfg	Distributor	Services
Revenue	10,000,000	10,000,000	10,000,000
Gross Margin	4,500,000	2,000,000	9,500,000
Net Income	1,000,000	200,000	1,200,000
<i>Net Income as % of Revenue</i>	10%	2%	12%
<i>Net Income as % of Gross Margin</i>	22%	10%	13%
Debt	500,000	100,000	-
Equity	1,000,000	400,000	2,000,000
Multiple of Net Income			
10 x Net Income	10,000,000	2,000,000	12,000,000
Debt	(500,000)	(100,000)	-
Estimated Value	9,500,000	1,900,000	12,000,000
<i>Annual Return on Equity</i>	100%	50%	60%
<i>Replacement Return Needed</i>	14%	14%	13%
Annual Net After Tax Available for Payment	600,000	120,000	720,000
Years to buyout 100%	33	33	38
Years to buyout 50%	12	12	12

## CASH DECISION #2

**PROFITABILITY IS RUNNING AT 3X  
INDUSTRY AVERAGE.**



# Profitability Keys

- Have your P&L speak “truth” by eliminating distortions
- Set Profit Targets on your “True Top Line”
  - Companies with Gross Margin below 40% should use Gross Margin as the “True Top Line”
- Labor Productivity is the #1 Key to Profitability
  - Optimized Management Labor productivity sets the stage for Direct Labor to be efficient

# Profitability Keys - Continued

- Be careful comparing to “industry” data that has not been normalized for distortions
- Compare your performance to businesses with similar models that may not be in the same industry (contracting, staffing, retail, manufacturing, etc)
- Isolate expense spending that is for future years and consider displaying it below Net Operating Income to not distort current operational performance.

## Simple Numbers P&L Model

	Retail/Mfg	Distribution	Services
Revenue	4,400,000	40,000,000	10,000,000
Cost of Goods Sold	1,800,000	34,650,000	500,000
<b>Gross Margin</b>	2,600,000	5,350,000	9,500,000
<i>as % to Sales</i>	59.09%	13.38%	95.00%
Direct Labor	900,000	1,100,000	4,750,000
<b>Contribution Margin (CM)</b>	1,700,000	4,250,000	4,750,000
<i>as % to Sales</i>	38.64%	10.63%	47.50%
<i>dLER (GM / Direct Labor)</i>	2.89	4.86	2.00
<b>Operating Expenses:</b>			
Facilities	240,000	270,000	890,000
Marketing	36,000	180,000	160,000
Management Labor	450,000	1,500,000	1,100,000
Payroll taxes & benefits	180,000	400,000	800,000
Other operating expenses	100,000	430,000	600,000
<b>Total Operating Expenses</b>	1,006,000	2,780,000	3,550,000
<i>as % to Sales</i>	22.86%	6.95%	35.50%
<i>mLER (CM / Management Labor)</i>	3.78	2.83	4.32
<b>Net Operating Income</b>	694,000	1,470,000	1,200,000
<i>as % to Sales</i>	15.77%	3.68%	12.00%
<i>as % to GM</i>	26.69%	27.48%	12.63%
<b>Other Income (Expense):</b>			
Interest income	1,000	1,500	3,000
Depreciation	(100,000)	(75,000)	(50,000)
Reinvestment Expenses	-	(150,000)	(100,000)
Other expenses	(10,000)	(5,000)	(15,000)
<b>Total Other Income (Expense)</b>	(109,000)	(228,500)	(162,000)
<b>Net Income</b>	585,000	1,241,500	1,038,000
<i>as % to Sales</i>	13.30%	3.10%	10.38%
<i>as % to GM</i>	22.50%	23.21%	10.93%

## CASH DECISION #3

**CASH FLOW IS A HIGH PRIORITY I.E.  
WE'RE FOCUSED ON CONTINUALLY  
IMPROVING THE BUSINESS MODEL TO  
GENERATE MORE CASH AS THE  
BUSINESS SCALES.**

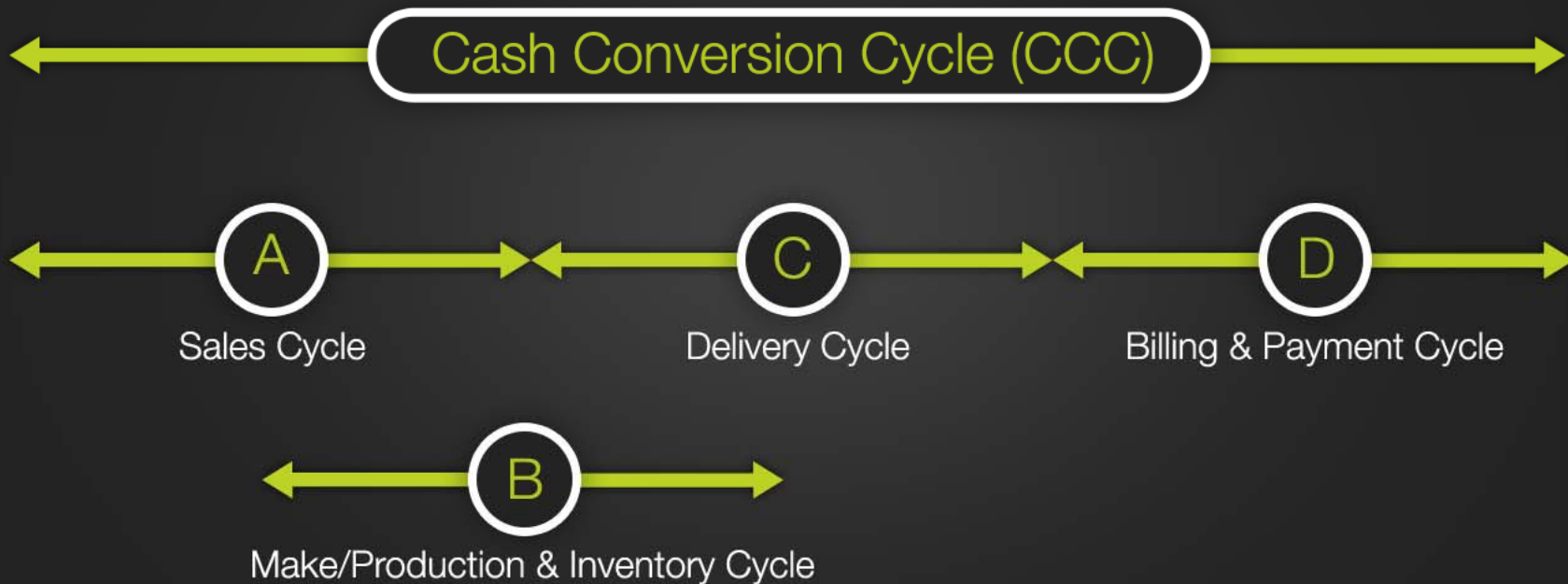
# Cash Flow Keys

- Understand the time lag between profit and cash flow
  - Utilize Alan Miltz's Power of One and Cash Flow Story tools or custom projection model  
[www.cashflowstory.com](http://www.cashflowstory.com)
- 5 Competing Forces for Cash Flow
  - R&D or reinvestment for growth
  - Taxes
  - Debt Service
  - Core Capitalization
  - Profit Distributions



CASH

# The Cash Conversion Cycle™



# Five Competing Forces for Cash

Prioritized in order:

1. Make Reinvestments into Business at 50% ROI
2. Set Aside Tax Liability (Quarterly)
3. Repay Line of Credit (LOC) Debt
4. Core Capital Target in Reserves – 2 months of operating expenses and Direct Labor in cash with nothing drawn on Line of Credit (LOC)
5. Pay Dividends (Distributions)

## CASH DECISION #4

**WE RECEIVE TIMELY AND ACCURATE REPORTING OF KEY DATA FOR OUR DAILY, WEEKLY, MONTHLY, AND QUARTERLY MEETING RHYTHMS.**



# Reporting Rhythms

- Break free from the Calendar!
  - Embrace the weekly accounting rhythm
  - Adopt Rolling 12 data as the performance measurement Gold Standard
  - Good data fast is better than perfect data late
  - “Accounting” does not have to be done by “Accountants”, imbed accounting into operational processes where the greatest knowledge of the transaction is closest to the transaction

# Recommended Reports

- Daily
  - Cash and Line of Credit Balances
- Weekly
  - 2 Week Cash Flow Forecast
  - Revenue, Gross Margin, Direct Labor & Contribution Margin (Report shows, week, trailing 4 week, trailing 13 week and trailing 52 week data) along with any other key activity metrics

Weekly Gross Margin & LER Tracking			
	Week 1	Week 2	Week 3
<b>Revenue</b>	75,000.00	85,000.00	72,500.00
<b>Cost of Goods Sold</b>	26,250.00	29,750.00	25,375.00
<b>Gross Margin</b>	48,750.00	55,250.00	47,125.00
<b>as a % of sales</b>	65%	65%	65%
<b>Direct Labor</b>	22,500.00	25,000.00	20,500.00
<b>Direct LER</b>	2.17	2.21	2.30
<b>Contribution Margin</b>	26,250.00	30,250.00	26,625.00
<b>as a % to sales</b>	35%	36%	37%
Target GM	50,000.00	50,000.00	50,000.00
Over / (Under) Target	(1,250.00)	5,250.00	(2,875.00)
Rolling Over / Under GM Target	(1,250.00)	4,000.00	1,125.00
Target LER	2.25	2.25	2.25
Target Direct Labor Spend	21,666.67	24,555.56	20,944.44
Actual Spend	22,500.00	25,000.00	20,500.00
Over / Under Target Spend	833.33	444.44	(444.44)
Rolling Over / Under Target Spend	833.33	1,277.78	833.33

# Recommended Reports

- Monthly
  - Full Financial Model (Balance Sheet, P&L & Cash Flow and business segments)
  - Start with Rolling 12 P&L, move to Rolling 3 P&L and then to Monthly P&L to avoid short term data bias
  - Specifically reforecast next 3 months and use trends to forecast out to 12 to 18 months
  - Review other key ratios and model cash flow trends

# Recommended Reports

- Quarterly
  - Review specialty segment reports
    - By Customer
    - By Project
    - By Product (GMROI for inventoried goods)
    - Any other segment that requires extra effort to create and is not totally automated
  - Closer review of longer term forecast

## CASH DECISION #5

WE KNOW PROFITABILITY, GROSS MARGIN, AND REVENUE BY CUSTOMER, PROJECT, LOCATION, LINE OF BUSINESS, TEAM AND/OR EMPLOYEE WHERE APPLICABLE

# Profit Cube – Effective Segment Reporting

- Keep segment reporting simple by tracking
  - Revenue
  - Direct Costs
    - Gross Margin (Revenue minus Direct Costs)
  - Direct Labor
    - Contribution Margin (Gross Margin minus Direct Labor)
    - Direct LER (Gross Margin divided by Direct Labor)

# Profit Cube – Effective Segment Reporting - Continued

- Recommend to avoid allocating Overhead or Payroll Taxes and Benefits
- Focus on Contribution Margin by segment and compare Direct LER to search for which pattern is the most efficient with labor but also yields higher Contribution Margin \$
- High Rates of performance are no good if you cannot get enough volume, conversely, volume is no good if it is at a bad rate



Sorted by descending order of Contribution Margin

WAGES	Revenue	Wages	Contribution Margin	LER
Producer #2	299,766.50	74,199.96	225,566.54	4.04
Producer #3	267,192.50	67,392.00	199,800.50	3.96
Owner/Producer	303,187.75	140,000.00	163,187.75	2.17
Producer #4	189,036.25	54,923.08	134,113.17	3.44
Owner/Producer	222,736.75	120,000.00	102,736.75	1.86
Freelancer #4	185,633.63	133,300.00	52,333.63	1.39
Freelancer #1	207,313.75	168,743.75	38,570.00	1.23
Producer #5	56,796.25	19,834.38	36,961.87	2.86
Freelancer #6	117,845.00	81,360.00	36,485.00	1.45
Freelancer #3	45,512.50	28,552.50	16,960.00	1.59
Producer #6	36,490.00	32,703.17	3,786.83	1.12
Freelancer #2	6,000.00	4,000.00	2,000.00	1.50
Freelancer #5	4,001.25	2,667.50	1,333.75	1.50
Producer #1	26,547.50	37,500.00	(10,952.50)	0.71

# Margin by Customer

LER by Customer						2.50	Target LER	
				Direct		Contribution	Revised Amounts if Target hit	
	Revenue	COGS	Gross Margin	Labor	LER	Margin	GP	Labor
Customer 6	189,401.84	83,922.63	105,479.21	34,007.21	3.10	71,472.00	85,018.03	42,191.68
Customer 5	394,214.04	110,515.69	283,698.35	93,462.07	3.04	190,236.28	233,655.18	113,479.34
Customer 16	275,713.31	110,681.20	165,032.11	56,693.23	2.91	108,338.88	141,733.08	66,012.84
Customer 4	401,858.55	164,855.24	237,003.31	85,644.71	2.77	151,358.60	214,111.78	94,801.32
Customer 15	699,956.51	410,082.84	289,873.67	126,663.43	2.29	163,210.24	316,658.58	115,949.47
Customer 10	149,512.00	43,182.97	106,329.03	46,950.03	2.26	59,379.00	117,375.08	42,531.61
Customer 13	650,471.18	260,070.65	390,400.53	181,917.31	2.15	208,483.22	454,793.28	156,160.21
Customer 2	221,724.72	62,981.51	158,743.21	79,324.19	2.00	79,419.02	198,310.48	63,497.28
Customer 9	464,739.95	33,963.42	430,776.53	244,621.15	1.76	186,155.38	611,552.88	172,310.61
Customer 3	236,268.67	106,127.94	130,140.73	80,557.76	1.62	49,582.97	201,394.40	52,056.29
Customer 12	1,260,905.86	1,040,945.50	219,960.36	138,587.71	1.59	81,372.65	346,469.28	87,984.14
Customer 14	432,699.13	173,622.35	259,076.78	165,988.26	1.56	93,088.52	414,970.65	103,630.71
Customer 8	113,287.54	45,092.32	68,195.22	48,258.16	1.41	19,937.06	120,645.40	27,278.09
Customer 1	195,614.17	18,900.36	176,713.81	128,665.40	1.37	48,048.41	321,663.50	70,685.52
Customer 7	43,993.35	2,987.75	41,005.60	31,401.46	1.31	9,604.14	78,503.65	16,402.24
Customer 11	190,286.64	631.69	189,654.95	188,184.64	1.01	1,470.31	470,461.60	75,861.98

## CASH DECISION #6

INDIVIDUAL LINE ITEMS ON THE P&L  
AND BALANCE SHEET HAVE PEOPLE  
SPECIFICALLY ACCOUNTABLE FOR EACH.

# Line Accountability

- Balance Sheet
  - All the “dead bodies” are on the balance sheet
  - Avoid immaterial adjusting for prepaid expenses and accruals unless they are material
  - Use book depreciation instead of tax for management statements
  - Consider Related Party Receivables as a reduction of equity instead of an asset since they are not likely to be repaid anytime soon

# Line Accountability

- P&L
  - Assign responsibility at the rolled up level (Simple Numbers format)
  - Responsibility will be to review past performance as well at forecaster (avoid “budget thinking”)
  - Rolling 12 trend is most authoritative data
  - Keep total model in perspective
    - No costs are truly fixed and no costs are truly variable
    - Be mindful of cost characteristics and search for “unproductive” costs that produce little to no value

## CASH DECISION #7

WE HAVE A ROLLING FORECAST  
LOOKING FORWARD 12 TO 18 MONTHS  
UPDATED AT LEAST MONTHLY.

# Art of Forecasting

- “A man who aims at nothing hits it with amazing accuracy”
- Rolling 12 data is usually able to predict 3 to six months out just from trend patterns
- Top Down method
  - Determine expected revenue
  - Predict costs needed to support activity

# Art of Forecasting

- Bottom Up Method
  - Identify Management Labor
  - Multiply Management Labor by mLER target to get the Contribution Margin target
  - Identify dLER rate targeted to calculate Direct Labor ( $CM / (dLER-1)$ )
  - Sum of Direct Labor and Contribution Margin is Gross Margin Target
  - Divide Gross Margin by GM% to estimate Revenue



## Bottom Up Method

	Current		
Revenue	4,400,000		
Cost of Goods Sold	1,800,000		
<b>Gross Margin</b>	2,600,000		
<i>as % to Sales</i>	59.09%		
Direct Labor	900,000		
<b>Contribution Margin (CM)</b>	1,700,000		2,268,000
<i>as % to Sales</i>	38.64%		38.58%
<i>dLER (GM / Direct Labor)</i>	2.89		2.89
<b>Operating Expenses:</b>			
Facilities	240,000		320,188
Marketing	36,000		48,028
Management Labor	450,000	150,000	600,000
Payroll taxes & benefits	180,000		240,000
Other operating expenses	100,000		133,412
<b>Total Operating Expenses</b>	1,006,000		1,341,628
<i>as % to Sales</i>	22.86%		22.82%
<i>mLER (CM / Management Labor)</i>	3.78		3.78
<b>Net Operating Income</b>	694,000	232,372	926,372
<i>as % to Sales</i>	15.77%		15.76%
<i>as % to GM</i>	26.69%		26.71%
<b>Other Income (Expense):</b>			
Interest income	1,000		1,000
Depreciation	(100,000)		(100,000)
Reinvestment Expenses	-		-
Other expenses	(10,000)		(10,000)
<b>Total Other Income (Expense)</b>	(109,000)		(109,000)
<b>Net Income</b>	585,000		817,372
<i>as % to Sales</i>	13.30%		13.91%
<i>as % to GM</i>	22.50%		23.57%

Step #1  
 Management Labor times mLER  
 = Contribution Margin

mLER times Management Labor

Project at same rate to CM

Project at same rate to CM

Project at same rate to all labor

Project at same rate to CM

## Bottom Up Method

		Current			
					Step #2
					Contribution Margin / (dLER-1)
					= Direct Labor
Revenue		4,400,000			
Cost of Goods Sold		1,800,000			
<b>Gross Margin</b>		2,600,000			
	<i>as % to Sales</i>	59.09%			
Direct Labor		900,000	300,000	1,200,000	CM / (dLER-1)
<b>Contribution Margin (CM)</b>		1,700,000		2,268,000	mLER times Management Labor
	<i>as % to Sales</i>	38.64%		38.58%	
	<i>dLER (GM / Direct Labor)</i>	2.89		2.89	
<b>Operating Expenses:</b>					
Facilities		240,000		320,188	Project at same rate to CM
Marketing		36,000		48,028	Project at same rate to CM
Management Labor		450,000	150,000	600,000	
Payroll taxes & benefits		180,000		240,000	Project at same rate to all labor
Other operating expenses		100,000		133,412	Project at same rate to CM
<b>Total Operating Expenses</b>		1,006,000		1,341,628	
	<i>as % to Sales</i>	22.86%		22.82%	
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	<i>as % to Sales</i>	15.77%		15.76%	
	<i>as % to GM</i>	26.69%		26.71%	
<b>Other Income (Expense):</b>					
Interest income		1,000		1,000	
Depreciation		(100,000)		(100,000)	
Reinvestment Expenses		-		-	
Other expenses		(10,000)		(10,000)	
<b>Total Other Income (Expense)</b>		(109,000)		(109,000)	
<b>Net Income</b>		585,000		817,372	
	<i>as % to Sales</i>	13.30%		13.91%	
	<i>as % to GM</i>	22.50%		23.57%	

## Bottom Up Method

Step #3

Contribution Margin + Direct Labor  
= Gross margin

		Current		
Revenue		4,400,000		
Cost of Goods Sold		1,800,000		
<b>Gross Margin</b>		2,600,000		3,468,000 CM + Direct Labor
	<i>as % to Sales</i>	59.09%		59.00%
Direct Labor		900,000	300,000	1,200,000 CM / (dLER-1)
<b>Contribution Margin (CM)</b>		1,700,000		2,268,000 mLER times Management Labor
	<i>as % to Sales</i>	38.64%		38.58%
	<i>dLER (GM / Direct Labor)</i>	2.89		2.89
<b>Operating Expenses:</b>				
Facilities		240,000		320,188 Project at same rate to CM
Marketing		36,000		48,028 Project at same rate to CM
Management Labor		450,000	150,000	600,000
Payroll taxes & benefits		180,000		240,000 Project at same rate to all labor
Other operating expenses		100,000		133,412 Project at same rate to CM
<b>Total Operating Expenses</b>		1,006,000		1,341,628
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	<i>as % to Sales</i>	15.77%		15.76%
	<i>as % to GM</i>	26.69%		26.71%
<b>Other Income (Expense):</b>				
Interest income		1,000		1,000
Depreciation		(100,000)		(100,000)
Reinvestment Expenses		-		-
Other expenses		(10,000)		(10,000)
<b>Total Other Income (Expense)</b>		(109,000)		(109,000)
<b>Net Income</b>		585,000		817,372
	<i>as % to Sales</i>	13.30%		13.91%
	<i>as % to GM</i>	22.50%		23.57%

## Bottom Up Method

Step #4 – GM / GM% = Revenue

	Current			
Revenue	4,400,000	1,477,966	5,877,966	GM / GM%
Cost of Goods Sold	1,800,000		2,409,966	
<b>Gross Margin</b>	2,600,000		3,468,000	CM + Direct Labor
<i>as % to Sales</i>	59.09%		59.00%	
Direct Labor	900,000	300,000	1,200,000	CM / (dLER-1)
<b>Contribution Margin (CM)</b>	1,700,000		2,268,000	mLER times Management Labor
<i>as % to Sales</i>	38.64%		38.58%	
<i>dLER (GM / Direct Labor)</i>	2.89		2.89	
<b>Operating Expenses:</b>				
Facilities	240,000		320,188	Project at same rate to CM
Marketing	36,000		48,028	Project at same rate to CM
Management Labor	450,000	150,000	600,000	
Payroll taxes & benefits	180,000		240,000	Project at same rate to all labor
Other operating expenses	100,000		133,412	Project at same rate to CM
<b>Total Operating Expenses</b>	1,006,000		1,341,628	
<i>as % to Sales</i>	22.86%		22.82%	
<i>mLER (CM / Management Labor)</i>	3.78		3.78	
<b>Net Operating Income</b>	694,000	232,372	926,372	
<i>as % to Sales</i>	15.77%		15.76%	
<i>as % to GM</i>	26.69%		26.71%	
<b>Other Income (Expense):</b>				
Interest income	1,000		1,000	
Depreciation	(100,000)		(100,000)	
Reinvestment Expenses	-		-	
Other expenses	(10,000)		(10,000)	
<b>Total Other Income (Expense)</b>	(109,000)		(109,000)	
<b>Net Income</b>	585,000		817,372	
<i>as % to Sales</i>	13.30%		13.91%	
<i>as % to GM</i>	22.50%		23.57%	

## CASH DECISION #8

WE HAVE 3X TO 10X THE CASH  
RESERVES COMPARED TO OUR  
COMPETITORS.

# Core Capital Target

- When is my business fully capitalized?
  - When you have:
    - 2 months of operating expenses (including direct labor) in cash (essentially, anything you do not have terms on)
    - Nothing drawn on a line of credit (would include lines that have been termed out)
    - Current taxes have been set aside and are not in the cash reserve number
- All other BS ratios are secondary if you hit this level of cash

## Core Capital Target Calculation

	Retail/Mfg	Distribution	Services
Revenue	4,400,000	40,000,000	10,000,000
Cost of Goods Sold	1,800,000	34,650,000	500,000
<b>Gross Margin</b>	2,600,000	5,350,000	9,500,000
<i>as % to Sales</i>	59.09%	13.38%	95.00%
Direct Labor	900,000	1,100,000	4,750,000
<b>Contribution Margin (CM)</b>	1,700,000	4,250,000	4,750,000
<i>as % to Sales</i>	38.64%	10.63%	47.50%
<i>dLER (GM / Direct Labor)</i>	2.89	4.86	2.00
<b>Operating Expenses:</b>			
Facilities	240,000	270,000	890,000
Marketing	36,000	180,000	160,000
Management Labor	450,000	1,500,000	1,100,000
Payroll taxes & benefits	180,000	400,000	800,000
Other operating expenses	100,000	430,000	600,000
<b>Total Operating Expenses</b>	1,006,000	2,780,000	3,550,000
<i>as % to Sales</i>	22.86%	6.95%	35.50%
<i>mLER (CM / Management Labor)</i>	3.78	2.83	4.32
<b>Net Operating Income</b>	694,000	1,470,000	1,200,000
<i>as % to Sales</i>	15.77%	3.68%	12.00%
<i>as % to GM</i>	26.69%	27.48%	12.63%
<b>1 Month Core Capital</b>	158,833	323,333	691,667
<b>2 Month Core Capital</b>	317,667	646,667	1,383,333

# Core Capital Target & ROE

- If you achieve the 2 months cash and have 10% net profit
- You should have a minimum of a 50% Return on equity year over year without selling the business. Most businesses have 75% to 100% that do not require heavy capitalization
- You can achieve a higher ROE with debt, but you are taking added risk to do it