WHITE PAPER

TEXAS SECURITY BANK

BUILDING A HEALTHY **BALANCE SHEET**

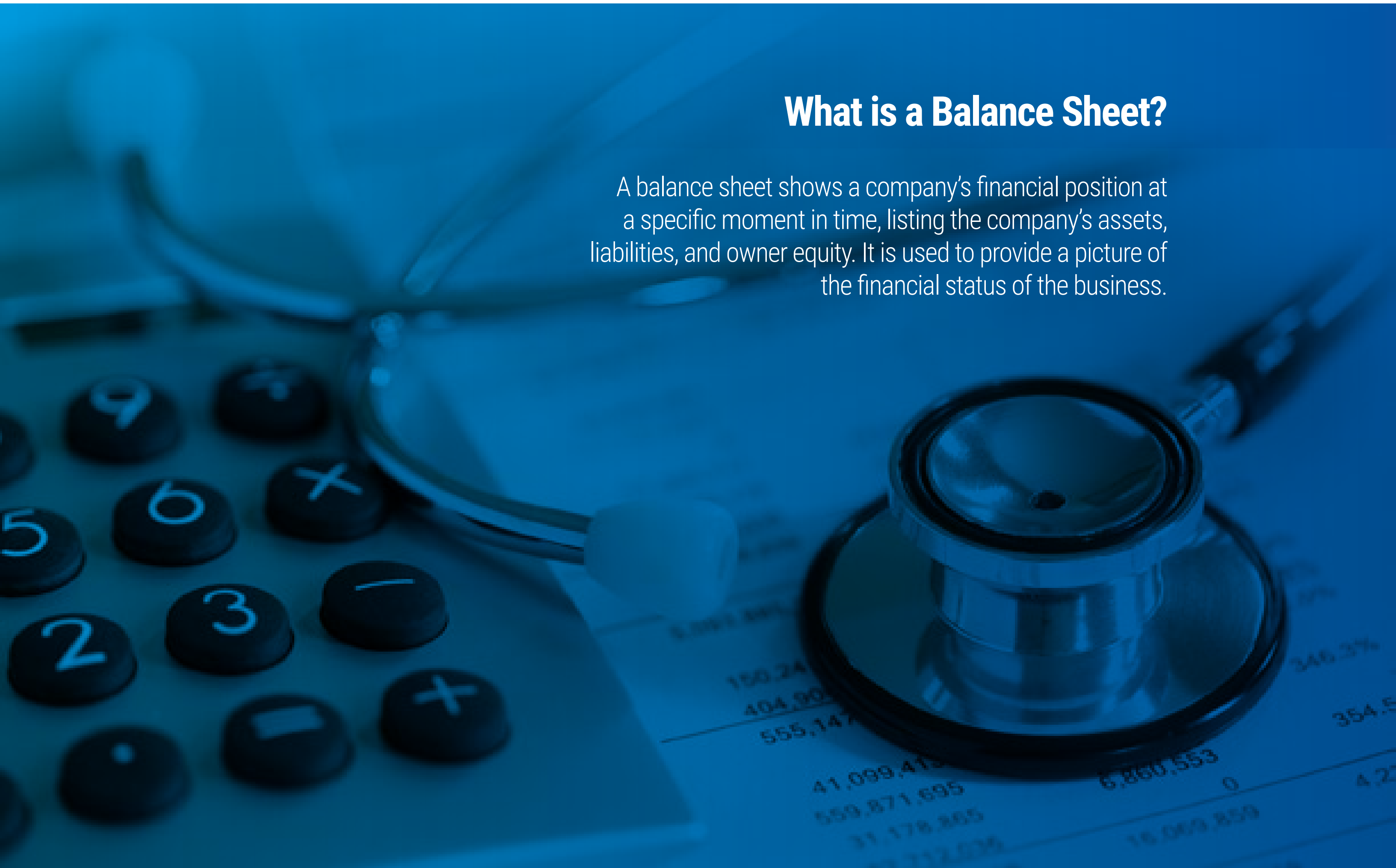
Craig Scheef - Texas Security Bank, *Chief Executive Officer and President*
Matt Neumann - Texas Security Bank, *Senior Credit Analyst*

There are numerous benefits to a healthy balance sheet.

Too bad few business owners get to enjoy them. Far too often, business owners struggle to achieve a healthy balance sheet, or even understand what one looks like. But by understanding what makes for a strong balance sheet, business owners can then implement the strategies required to enjoy their many benefits.

In this paper, we'll explore:

- **The reasons** why many business owners lack a healthy balance sheet
- **The benefits** of a strong balance sheet
- **The strategy** for building and structuring a healthy balance sheet



What is a Balance Sheet?

A balance sheet shows a company's financial position at a specific moment in time, listing the company's assets, liabilities, and owner equity. It is used to provide a picture of the financial status of the business.

The Barriers to a Healthy Balance Sheet

There are a few reasons why many business owners struggle with their balance sheets. Many business owners are not educated specifically in accounting and finance and therefore, not familiar with the balance sheet. For business owners who wish to learn more about balance sheets, there is little practical, continuing education available.

Next, balance sheet management often falls far down the list of a business owner's priorities. Business owners often have much more pressing, short-term concerns: Payroll must be made. Revenue must be generated. Employees must be hired and trained. Taxes must be paid. Customers must be kept happy. With only 24 hours in a day, too many business owners believe they can worry about their balance sheet another day.

Want to Learn More?

As a part of our mission to Elevate the Champions of Free Enterprise, Texas Security Bank provides continuing education to business owners through our monthly TSB Speakers Series and the TSB Academy.

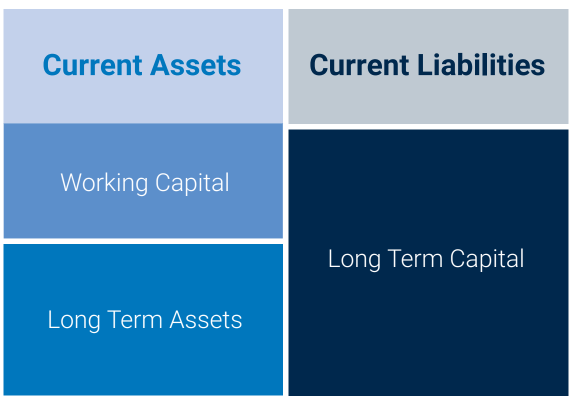
The TSB Academy is a 12-month education program, structured like an Executive MBA, geared towards business owners and their key players. The content is specifically focused on foundation, strategic, and functional principles to give business owners the tools they need to grow their business.

Why is a Healthy Balance Sheet Important?

A healthy balance sheet provides the structure and data you need to optimize working capital. Working capital helps provide a cushion for an inevitable disruption in your cash cycle, such as:

- **Management issues**
- **Loss of key customers**
- **Loss of key vendors**
- **Difficulty with business strategy**
- **Dips in the economy**
- **Production or customer seasonality**
- **Unforeseen changes to your business**

Most business owners view their working capital as their current assets minus their current liabilities. Technically, this is correct. However, a more insightful way of viewing working capital is the extent to which long-term capital can finance their current assets. A poorly-structured balance sheet mismatches the funding of assets. A long-term asset (buildings, equipment, etc.) funded by current liabilities can reduce working capital, adding risk to your business.



The graphic to the left helps illustrates working capital. As shown, long term capital – typically made up of long term debt (senior or subordinated) and owner's equity – is funding a portion of current assets. Far too often, a poor-working capital position is the result of management not retaining enough earnings or purchasing fixed assets through advances on a line of credit.

The good news is that this can be fixed. A good banker can quickly spot this common mistake and adjust your funding accordingly.

The Benefits of a Healthy Balance Sheet

A healthy balance sheet:

- **Improves both your working capital and your liquidity** (cash + line of credit availability) by helping you better manage your A/R, inventory and vendors.
- **Reduces leverage and improves debt capacity** that may be used to take advantage of opportunities or to fund working capital in difficult circumstances.
- **Increases velocity of the cash cycle** to optimize cash flow and profitability.
- **Minimizes the cost of capital** thanks to the lower interest rate banks are able to provide to businesses with less outstanding on their line of credit.

In general, a healthy balance sheet maximizes financial performance, allows management of the business to be more agile, and provides additional options to help shape a more profitable future.

What does a Healthy Balance Sheet Look Like?

A healthy balance sheet considers not only quantitative factors, but also qualitative factors. It is helpful to view the balance sheet one component at a time. Each component of the balance sheet is a cell where both quantitative and qualitative factors of each cell determine what is "healthy." Components include:

- **Cash**
- **Accounts Receivable**
- **Inventory**
- **Accounts Payable (vendors)**
- **Building**
- **Equipment**
- **Line of Credit (terms and availability)**
- **Long Debt (terms and properly matched to asset)**
- **Tangible Equity**
- **Working Capital**
- **Leverage**

Each of these components has a number (quantitative) that speaks to its health. Through the RMA, Moody's or trade organizations, an owner can assess where they perform relative to other similar companies in their industry. They can determine whether they are in the upper quartile, median quartile, or lower quartile accordingly. This benchmarking is a valuable first step in evaluating an organization's liquidity, A/R turndays, Inventory turndays, A/P turndays, Working Capital, Total Debt to Tangible Net Worth (Leverage), Gross Margin, and profitability.

Just as important are the qualitative factors.

Here are some qualitative factors that you should consider:

Liquidity (cash and line of credit availability)

- Do we have cash balances in excess of the FDIC limit at our bank?
- If so, what is the health of our bank?
- Do we have good audit controls on cash with clear documented processes and separation of duties in order to deter fraud?
- Do we have dual authentication on wires and ACH payments?
- What are our technology policies, procedures and monitoring to minimize cyber threats (phishing, ransomware, etc.)?
- What is the remaining term on LOC?
- Do we have a healthy margin on any bank covenants?
- Do we have a good working relationship with our banker and their superiors?

Accounts Receivable

- Customers are a critical stakeholder. Is there a clear strategy for adding value?
- What are our Terms of Sale?
- Do we offer discounts for faster payments?
- Do we have a documented process for extending credit?
- Who has the authority to extend credit?
- Do we have a documented process for collections?
- Do we have any customer concentrations? If so, what is our strategy to improve diversification?
- What is the financial health of our top 10 customers?
- Who monitors account debtor creditworthiness?
- What is the strategy for improving turn days (velocity)? What is the target? Who owns this number? Remember, velocity improves overhead absorption.

Inventory

- How quickly can inventory be turned to cash?
- Who makes the purchasing decisions? On what basis? Is the process documented?
- What are our turn days? What is the target? Is there a strategy for improving? Who owns this number? Remember, velocity improves overhead absorption.
- Do we know our cost per unit on a fully-burdened basis?
- Is there slow-moving inventory? Why? If so, what is the strategy to eliminate? Who is responsible for slow-moving inventory?

Accounts Payable

- Vendors are a critical stakeholder. Is there a strategy to adding value? Who is responsible for vendor relationships?
- How do we rate our relationships with vendors? Are we a good customer?
- Do we have vendor concentrations or dual sourcing?
- What is our tariff exposure?
- What are our terms of sale? Are we taking advantage of discounts?
- Has our payment history earned us the right to negotiate any extended terms?

Building and Equipment

- Is our building and equipment well-maintained? Are there documented maintenance procedures?Who is accountable for maintenance? Do we know the value of our building and equipment?
- Do we know our equipment utilization rates?
- Is our workplace safe?

Case Study:

Tiger Manufacturing

Jeff Fifield began working in a part-time inside sales position for Thompson Supply, a distributor of construction materials, while in college. Jeff was a natural salesman and went full-time with Thompson Supply in 1975. Jeff had great success at Thompson Supply, rising to the position of Executive Vice President of Sales. Over the years, Jeff recognized an opportunity to expand into the under-served utility construction space. However, Gerald Thompson, the owner, believed such an expansion represented too much risk.

In 1999, Jeff and his wife Dana discussed the opportunity to purchase the business and weighed the risk. At that time, they had approximately $400,000 in savings. However, two of their children were in college while their youngest son Butch was still a senior in high school. "Let's do it!" Dana said, and Tiger Manufacturing, a value-added distributor of equipment utilized in the electric, gas and water utility industries, was born.

As a top salesman at Thompson Supply, Jeff had built great relationships with all the vendors. Three of the vendors agreed to extend credit to Jeff and Dana. Combined with 80% of their life savings, they estimated there would be enough working capital to fund 18 months of operations. Initially, everything went as planned. Tiger Manufacturing posted positive cash flow in month 19!

However, Jeff and Dana did not anticipate 9/11. The next 12 months were beyond scary, as the construction industry all but stopped. Jeff and Dana were forced to let go of three of their new employees. As accounts receivable collections slowed, accounts payable began to stretch far beyond the agreed-upon terms. For most of the next 12 months, Jeff and Dana went without pay. They were forced to empty out the remainder of their savings and Butch's college fund just to make payroll. By nothing less than divine provision, they made it through. Such is the Free Enterprise story of most entrepreneurs.

Butch was the only Fifield sibling interested in working for Tiger. Fortunately, he inherited his father's sales skills and his mother's business sense. Butch became Jeff and Dana's succession plan. In 2015, after continued officer turnover, Tiger Manufacturing changed their banking relationship from a large multi-national bank to Texas Security Bank. Butch began attending the Texas Security Bank Academy and quickly realized the many opportunities for improvement at Tiger Manufacturing. As a result of the Academy's Benchmarking class, he realized Tiger Manufacturing had a very sick balance sheet. Seeing what his family went through in 2001 made a lasting impression on Butch. Therefore, his priority was to protect Tiger Manufacturing from the next inevitable economic slow-down or recession. Butch realized documented processes and accountability were needed to improve the health of the balance sheet and, eventually, help build scale.

During a management strategic planning session in January 2016 (their first ever), Butch and his team agreed to embark on a three-year strategy to strengthen their balance sheet. This became the #1 priority – even above sales growth. Tiger Manufacturing had to get better before they could get bigger.

The table below provides a summary of their balance sheet at the end of 2015. Butch realized he had work to do. Working capital was very thin, primarily due to the absence of retained earnings. Leverage was "off the charts" for the same reason. Liquidity was precariously tight. The line of credit was fully drawn, and there was only $10,000 in their checking account.

Starting with A/R, he realized the need to establish procedures and accountability regarding the extension of credit to existing and prospective customers. He had no idea of the underlying financial capacity of his account debtors. How would these customers perform in an economic slowdown? Additionally, there was also no documented process for collections. Not surprisingly, A/R turn days stood at 59 days – almost 2x the company's sales terms of net 30 days! Finally, a review of Tiger Manufacturing's A/R aging revealed that its top three customers accounted for 50% of A/R. This represented a significant business and credit risk. A strategy to diversify the client base was critical.

TIGER MANUFACTURING

Balance Sheet - December 31, 2015

ASSETS

Current Assets

Cash & Cash Equivalents	$	10,000
Accounts Receivable		650,000
Inventory		652,000
Other Current Assets		15,000
Total Current Assets		**1,327,000**

Current Assets

Land & Buildings	500,000
Machinery & Equipment	250,000
Gross Fixed Assets	750,000
Less: Accumulated Depreciation	(450,000)
Net Fixed Assets	300,000

Other Assets

Intangible Asset	110,000
Less: Accumulated Amortization	(30,000)
Net Intangible Assets	80,000

Total Assets **$ 1,707,000**

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

Line of Credit $750M Commitment	$	750,000
Accounts Payable		298,000
Current Portion of LTD		25,000
Accrued Expenses		95,000
Total Current Liabilities		**1,168,000**

Long Term Debt	450,000
Total Liabilities	1,618,000
Shareholders' Equity	
Retained Earnings	89,000
Total Liabilities & Shareholders' Equity	**$ 1,707,000**

Working Capital	$ 159,000	A/R Days	59
Liquidity	$ 10,000	Inv. Days	70
Current Ratio	1.14	A/P Days	32
Debt/ TNW	179.78	CFO	
Interest Paid 5.50%	$ (41,250)		

* Liquidity is defined as availability on the LOC plus cash balances.
** Availability on the LOC is defined as 80% of A/R plus 40% of Inventory minus LOC balance

Inventory and vendor management had many of the same issues. There was no point of accountability for purchasing decisions. A clear need existed for an investment in an inventory management system that provided optimal economic order quantities, as well as the margin and turn classifications by SKU data critical for a distributor optimizing purchasing decisions. The absence of such a system resulted in approximately $50,000 of inventory being classified as “slow-moving.” Historically, management conducted one physical inventory count per year. Typically, there was a negative adjustment to inventory; usually small, but occasionally worth noting. Many of TM’s top-selling products were single-sourced. 60% of TM’s cost of goods sold came from just four vendors. Based on recent industry benchmarking data, inventory turns of 55 days should be attainable. Yet, Tiger Manufacturing’s stood at 70 days.

Tiger Manufacturing received net 30-day terms from its vendors. Because of the loyalty shown by vendors in the early years, Jeff and Dana made it a point to pay on time (A/P turn days at 32). At least there was one bright spot on the balance sheet.

TIGER MANUFACTURING

Balance Sheet - December 31, 2016

Improve A/R and INV Days, and Extend A/P

ASSETS

Current Assets

Cash & Cash Equivalents	$ 219,000
Accounts Receivable	582,000
Inventory	614,000
Other Current Assets	15,000
Total Current Assets	**1,430,500**

Current Assets

Land & Buildings	500,000
Machinery & Equipment	250,000
Gross Fixed Assets	750,000
Less: Accumulated Depreciation	(475,000)
Net Fixed Assets	275,000

Other Assets

Intangible Asset	110,000
Less: Accumulated Amortization	(30,000)
Net Intangible Assets	80,000

Total Assets	**$ 1,75,500**

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

Line of Credit $750M Commitment	$ 700,000
Accounts Payable	336,500
Current Portion of LTD	25,000
Accrued Expenses	110,000
Total Current Liabilities	**1,171,500**

Long Term Debt	425,000
Total Liabilities	1,596,500

Shareholders' Equity

Retained Earnings	179,000
Total Liabilities & Shareholders' Equity	**$ 1,75,500**

Working Capital	$ 259,000	A/R Days	50
Liquidity	$ 230,700	Inv. Days	62
Current Ratio	1.22	A/P Days	34
Debt/ TNW	14.65	CFO	$323,000
Interest Paid 5.50%	$ (38,500)		

* Liquidity is defined as availability on the LOC plus cash balances.

** Availability on the LOC is defined as 80% of A/R plus 40% of Inventory minus LOC balance

In 2016, management went to work on the balance sheet, albeit "brick by brick." Butch hired an experience collections manager who also became the point person for the extension of credit. Procedures were documented for the extension of credit. Financial and Paydex data was obtained for all account debtors over $50,000. Any exceptions to the credit or collections procedures had to be approved by Butch. A documented collections process was established. Tiger Manufacturing also began offering a 2% discount for all payments received within the 30-day terms. This strategy would negatively impact the company's gross profit. However, Butch and the collections manager realized the pay-off would be realized in improved cash flow. The result was an improvement in A/R turns from 59 to 50 days.

Butch invested in a new inventory management system and promoted David Williams, a bright young warehouse manager, to purchasing manager. Butch invested in David's development by enrolling him in supply chain management training, as well as providing training for the new inventory management system. David instituted and documented a new centralized purchasing process. David also took the initiative to set up meetings with all of their key vendors. Because discounts were not customary in the industry, Butch sought to capitalize on the goodwill created with vendors over the years by requesting extended terms to 45 days. One vendor agreed. As shown above, A/P turns slightly increase to 34 days.

As a result of these initiatives, liquidity, working capital and leverage improved.

TIGER MANUFACTURING

Balance Sheet - December 31, 2017

Improve A/R and INV Days, Extend A/P, and Implement Cash Sweep

ASSETS

Current Assets

Cash & Cash Equivalents	$ 10,000
Accounts Receivable	505,000
Inventory	593,000
Other Current Assets	15,000
Total Current Assets	**1,123,000**

Current Assets

Land & Buildings	500,000
Machinery & Equipment	250,000
Gross Fixed Assets	750,000
Less: Accumulated Depreciation	(500,000)
Net Fixed Assets	250,000

Other Assets

Intangible Asset	110,000
Less: Accumulated Amortization	(50,000)
Net Intangible Assets	60,000

Total Assets **$ 1,433,000**

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

Line of Credit $750M Commitment	$ 238,000
Accounts Payable	381,000
Current Portion of LTD	25,000
Accrued Expenses	110,000
Total Current Liabilities	**754,000**

Long Term Debt	400,000
Total Liabilities	1,154,000

Shareholders' Equity

Retained Earnings	279,000

Total Liabilities & Shareholders' Equity **$ 1,433.000**

Working Capital	$ 369,000	A/R Days	41
Liquidity	$ 413,200	Inv. Days	56
Current Ratio	1.49	A/P Days	36
Debt/ TNW	5.27	CFO	$ 290,590
Interest Paid 5.50%	$ (13,090)		

* Liquidity is defined as availability on the LOC plus cash balances.
** Availability on the LOC is defined as 80% of A/R plus 40% of Inventory minus LOC balance

The balance sheet improvement trends continued in 2017. Tiger Manufacturing instituted an incentive compensation plan in the collections department base on an A/R turn days. A similar ICOMP was established for the purchasing department. Through persistence and establishing additional vendor relationships, David and Butch were able to obtain 45-day terms with two additional vendors.

TIGER MANUFACTURING

Balance Sheet - December 31, 2015

Further Improvements to Activity Metrics

ASSETS

Current Assets

Cash & Cash Equivalents	$ 10,000
Accounts Receivable	468,000
Inventory	561,000
Other Current Assets	15,000
Total Current Assets	**1,054,000**

Current Assets

Land & Buildings	500,000
Machinery & Equipment	250,000
Gross Fixed Assets	750,000
Less: Accumulated Depreciation	(525,000)
Net Fixed Assets	225,000

Other Assets

Intangible Asset	110,000
Less: Accumulated Amortization	(60,000)
Net Intangible Assets	50,000

Total Assets	**$ 1,329,000**

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

Line of Credit $750M Commitment	$ 38,000
Accounts Payable	402,000
Current Portion of LTD	25,000
Accrued Expenses	110,000
Total Current Liabilities	**575,000**

Long Term Debt	375,000
Total Liabilities	950,000

Shareholders' Equity

Retained Earnings	379,000
Total Liabilities & Shareholders' Equity	**$ 1,329.000**

Working Capital	$ 479,000	A/R Days	38
Liquidity	$ 570,800	Inv. Days	53
Current Ratio	1.83	A/P Days	38
Debt/ TNW	2.89	CFO	$ 227,090
Interest Paid 5.50%	$ (2,090)		

* Liquidity is defined as availability on the LOC plus cash balances.
** Availability on the LOC is defined as 80% of A/R plus 40% of Inventory minus LOC balance

By the end of 2018, Tiger Manufacturing was on solid ground. A foundation had been built for future growth. Or, in the event that the economy slowed as expected, Tiger Manufacturing had the liquidity, working capital and asset quality to weather the storm.

The table below summarizes the substantial balance sheet improvements made over the past three years.

TIGER MANUFACTURING

	2015	2016	2017	2018
Working Capital	$ 159,000	$ 259,000	$ 369,000	$ 479,000
Liquidity	$ 10,000	$ 230,000	$ 413,000	$ 570,800
Current Ratio	1.14	1.22	1.49	1.83
Debt/TNW	179.78	14.65	5.27	2.98
Interest Paid on LOC	$ 41,250	$ 38,500	$ 13,090	$ 2,090
A/R Days	59	50	41	38
Inventory Days	70	62	56	53
A/P Days	32	34	36	38
Cash from Operations		$ 323,000	$ 290,590	$ 227,090

Summary and Conclusion

In this paper, we recognized the need for a healthy balance sheet and discussed both the quantitative and qualitative attributes of a healthy balance sheet. We also reviewed the strategies implemented by Tiger Manufacturing to improve their balance sheet. These strategies enabled management to transform their balance sheet from undercapitalized, illiquid and fraught with risk to enviable qualitative and quantitative metrics with plenty of healthy margin to absorb risk and consider growth opportunities.

Exhibit A

Tiger Manufacturing financial statement spreads, ratio analysis and cash flow analysis from 2015-2018.

TIGER MANUFACTURING								
Statement date	12/31/15		12/31/16		12/31/17		12/31/18	
Months (covered by P & L)	12		12		12		12	
Accountant/Auditor								
Statement quality	Base Year		Year 2		Year 3 + Sweep		Year 4 + Sweep	
Analyst								
Entered in	Actual	%	Actual	%	Actual	%	Actual	%
Current assets								
Cash	10,000	0.6%	219,500	12.4%	10,000	0.7%	10,000	0.8%
Accounts receivable (trade)	650,000	38.1%	582,000	32.8%	505,000	35.2%	468,000	35.2%
Inventory	652,000	38.2%	614,000	34.6%	593,000	41.4%	561,000	42.2%
Other current assets	15,000	0.9%	15,000	0.8%	15,000	1.0%	15,000	1.1%
Total current assets	1,327,000	77.7%	1,430,500	80.6%	1,123,000	78.4%	1,054,000	79.3%
Non-current assets								
Land & buildings - gross	500,000	29.3%	500,000	28.2%	500,000	34.9%	500,000	37.6%
Machinery & equipment - gross	250,000	14.6%	250,000	14.1%	250,000	17.4%	250,000	18.8%
Gross fixed assets	750,000	43.9%	750,000	42.2%	750,000	52.3%	750,000	56.4%
Accumulated depreciation (-)	(450,000)	(26.4%)	(475,000)	(26.8%)	(500,000)	(34.9%)	(525,000)	(39.5%)
Net fixed assets	300,000	17.6%	275,000	15.5%	250,000	17.4%	225,000	16.9%
Intangible Assets	110,000	6.4%	110,000	6.2%	110,000	7.7%	110,000	8.3%
Accumulated amortization (-)	(30,000)	(1.8%)	(40,000)	(2.3%)	(50,000)	(3.5%)	(60,000)	(4.5%)
Net intangible assets	80,000	4.7%	70,000	3.9%	60,000	4.2%	50,000	3.8%
Total non-current assets	380,000	22.3%	345,000	19.4%	310,000	21.6%	275,000	20.7%
Total assets	1,707,000	100.0%	1,775,500	100.0%	1,433,000	100.0%	1,329,000	100.0%
Current liabilities								
Line of Credit	750,000	43.9%	700,000	39.4%	238,000	16.6%	38,000	2.9%
Accounts payable (trade)	298,000	17.5%	336,500	19.0%	381,000	26.6%	402,000	30.2%
Current portion - long term debt	25,000	1.5%	25,000	1.4%	25,000	1.7%	25,000	1.9%
Accrued expenses payable	95,000	5.6%	110,000	6.2%	110,000	7.7%	110,000	8.3%
Total current liabilities	1,168,000	68.4%	1,171,500	66.0%	754,000	52.6%	575,000	43.3%
Non-current liabilities								
LTP - long term debt	450,000	26.4%	425,000	23.9%	400,000	27.9%	375,000	28.2%
Total non-current liab's	450,000	26.4%	425,000	23.9%	400,000	27.9%	375,000	28.2%
Total liabilities	1,618,000	94.8%	1,596,500	89.9%	1,154,000	80.5%	950,000	71.5%
Net worth								
Retained earnings	89,000	5.2%	179,000	10.1%	279,000	19.5%	379,000	28.5%
Total net worth	89,000	5.2%	179,000	10.1%	279,000	19.5%	379,000	28.5%
Total liab's & net worth	1,707,000	100.0%	1,775,500	100.0%	1,433,000	100.0%	1,329,000	100.0%

*Modified chart. See Audit Report.

TIGER MANUFACTURING								
Statement date	12/31/15		12/31/16		12/31/17		12/31/18	
Months (covered by P & L)	12		12		12		12	
Accountant/Auditor								
Statement quality	Base Year		Year 2		Year 3 + Sweep		Year 4 + Sweep	
Analyst								
Entered in	Actual	%	Actual	%	Actual	%	Actual	%
Income statement								
Sales	4,000,000	100.0%	4,250,000	100.0%	4,500,000	100.0%	4,500,000	100.0%
Cost of Goods Sold	3,400,000	85.0%	3,612,500	85.0%	3,865,375	85.9%	3,865,375	85.9%
Gross profit	600,000	15.0%	637,500	15.0%	634,625	14.1%	634,625	14.1%
Operating expense								
Administrative wages & salaries	180,000	4.5%	190,000	4.5%	195,000	4.3%	195,000	4.3%
Other SG&A expense	38,750	1.0%	55,500	1.3%	61,535	1.4%	72,535	1.6%
Officers' compensation	70,000	1.8%	73,500	1.7%	75,000	1.7%	75,000	1.7%
Rent	155,000	3.9%	155,000	3.6%	155,000	3.4%	155,000	3.4%
Amortization	10,000	0.3%	10,000	0.2%	10,000	0.2%	10,000	0.2%
Depreciation	25,000	0.6%	25,000	0.6%	25,000	0.6%	25,000	0.6%
Total operating expense	478,750	12.0%	509,000	12.0%	521,535	11.6%	532,535	11.8%
Operating profit	121,250	3.0%	128,500	3.0%	113,090	2.5%	102,090	2.3%
Other income (expense)								
Interest expense	(41,250)	(1.0%)	(38,500)	(0.9%)	(13,090)	(0.3%)	(2,090)	(0.0%)
Total other income (expense)	(41,250)	(1.0%)	(38,500)	(0.9%)	(13,090)	(0.3%)	(2,090)	(0.0%)
Net profit	80,000	2.0%	90,000	2.1%	100,000	2.2%	100,000	2.2%
Income statement memo								
EBIT	121,250		128,500		113,090		102,090	
EBITDA	156,250		163,500		148,090		137,090	
EBITDAR	311,250		318,500		303,090		292,090	
Adjustments								

*Modified chart. See Audit Report.

TIGER MANUFACTURING

Statement Date	Dec 31, 15	Dec 31, 16	Dec 31, 17	Dec 31, 18
Months (covered by P & L)	12	12	12	12
Reconciling Statement	Not Reconciled	Dec 31, 15	Dec 31, 16	Dec 31, 17
Entered in	Actual	Actual	Actual	Actual
Direct Cash Flow Analysis (UCA)				
Operating cash flow				
Sales		4,250,000	4,500,000	4,500,000
Δ AR Trade (net)		68,000	77,000	37,000
Cash from sales		4,318,000	4,577,000	4,537,000
Cost of goods sold (net dep.)		(3,612,500)	(3,865,375)	(3,865,375)
Δ Inventory		38,000	21,000	32,000
Δ Accounts payable		38,500	44,500	21,000
Production costs		(3,536,000)	(3,799,875)	(3,812,375)
Gross cash margin		782,000	777,125	724,625
Operating expenses (net of non-cash exp)		(474,000)	(486,535)	(497,535)
Δ Accrued expenses		15,000		
Cash operating expenses		(459,000)	(486,535)	(497,535)
Gross cash from operations		323,000	290,590	227,090
Other income & income taxes paid				
Net cash from operations		323,000	290,590	227,090
Interest expense		(38,500)	(13,090)	(2,090)
Cash financing costs		(38,500)	(13,090)	(2,090)
Cash after financing costs		284,500	277,500	225,000
Current portion of long-term debt		(25,000)	(25,000)	(25,000)
Cash after debt amortization		259,500	252,500	200,000
Cash used for investments				
Financing requirement		259,500	252,500	200,000
Δ Short term debt		(50,000)	(462,000)	(200,000)
Cash from new financings		(50,000)	(462,000)	(200,000)
Change in cash for period		209,500	(209,500)	
+ Beginning cash		10,000	219,500	10,000
Ending cash		219,500	10,000	10,000

TIGER MANUFACTURING

Statement Date	Dec 31, 15	Dec 31, 16	Dec 31, 17	Dec 31, 18
Months (covered by P & L)	12	12	12	12
Reconciling Statement	Not Reconciled	Dec 31, 15	Dec 31, 16	Dec 31, 17
Entered in	Actual	Actual	Actual	Actual
Ratios & Trends				
Liquidity				
Quick ratio	0.57	0.68	0.68	0.83
Current ratio	1.14	1.22	1.49	1.83
Working capital	159,000	259,000	369,000	479,000
Activity				
Days' receivables	59.31	49.98	40.96	37.96
Sales / Trade receivables	6.15	7.30	8.91	9.62
Days' inventory	69.99	62.04	56.00	52.97
Cost of sales / Inventory	5.21	5.88	6.52	6.89
Days' payables	31.99	34.00	35.98	37.96
Cost of sales / Trade payables	11.41	10.74	10.15	9.62
Sales / Total assets	2.34	2.39	3.14	3.39
Sales / Working capital	25.16	16.41	12.20	9.39
Leverage				
Equity in assets (%)	5.2%	10.1%	19.5%	28.5%
Debt / Worth	18.18	8.92	4.14	2.51
Tangible net worth	9,000	109,000	219,000	329,000
Debt / Tangible worth	179.78	14.65	5.27	2.89
Effective tangible net worth	9,000	109,000	219,000	329,000
Debt / Effective tangible net worth	179.78	14.65	5.27	2.89
Coverage				
EBIT / Interest	2.94	3.34	8.64	48.85
NPAT + non-cash charges - dividends / CPLTD	4.60	5.00	5.40	5.40
EBITDA / Debt service	2.36	2.57	3.89	5.06
EBITDAR / Debt service + rent	1.41	1.46	1.57	1.60
Net cash from ops / Cash interest costs		8.39	22.20	108.66
Cash after financing costs / CPLTD pmts		11.38	11.10	9.00
Net cash from ops / Cash debt service		5.09	7.63	8.38
Net cash from ops / CPLTD + interest + dividends		5.09	7.63	8.38
Net cash from ops / CPLTD pmts + interest + dividends		5.09	7.63	8.38
Profitability				
Gross profit / Net sales	15.0%	15.0%	14.1%	14.1%
Operating profit / Sales	3.0%	3.0%	2.5%	2.3%
Operating profit (net non-cash exp) / Sales	3.9%	3.8%	3.3%	3.0%
Operating expense / Sales	12.0%	12.0%	11.6%	11.8%
Operating expense (net non-cash exp) / Sales	11.1%	11.2%	10.8%	11.1%
EBIT	121,250	128,500	113,090	102,090
EBITDA	156,250	163,500	148,090	137,090
EBIT / Sales	3.0%	3.0%	2.5%	2.3%
Net profit before taxes / Sales	2.0%	2.1%	2.2%	2.2%
Net profit after taxes / Sales	2.0%	2.1%	2.2%	2.2%
Return on average assets		5.2%	6.2%	7.2%
Return on average equity		67.2%	43.7%	30.4%
Growth				
Sales		6.3%	5.9%	
Net profit after taxes		12.5%	11.1%	
Assets		4.0%	(19.3%)	(7.3%)
Liabilities		(1.3%)	(27.7%)	(17.7%)
Net worth		101.1%	55.9%	35.8%
Sustainable growth				
Return on equity		50.3%	35.8%	26.4%
Sustainable growth rate		50.3%	35.8%	26.4%
Actual sales growth rate		6.3%	5.9%	
Growth rate margin		44.0%	30.0%	26.4%