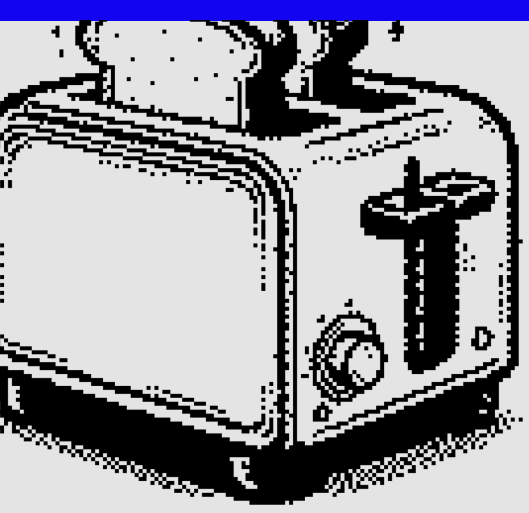

THE 5-MINUTE FINANCIAL REVIEW

1. REVENUE GROWTH

Understand if it's at or above the industry average or economic growth rate. If so, it's a sign the business is healthy.

Also look for breakouts of the product and/or service offered.

Revenue Growth % = (Current Period Revenue - Prev Period Revenue) / Prev Period Revenue

2. WHAT IS OUR PROFIT MARGIN?

Profit is driven by:
- Sales & product/service pricing
- Cost of Goods Sold
- Operating Expenses

Healthy profit margins allow you to grow your business through reinvestment (and ultimately take a dividend as the owner).

Make sure your costs don't go up quicker than sales and understand when and why they do.

Profit Margin = Net Profit / Revenue

3. WHAT IS OUR CASH POSITION TODAY?

Cash allows flexibility in your decisions. Do you take on more debt or pay with cash? Can you pay now or later?

3 key numbers to look at:

Cash Balance Today
This can be fund on the Balance Sheet or Statement of Cash Flows. Aim to have 2-6 months of operating expenses as a cash balance to sustain a downturn. This will improve your decision-making ability.

Operating Cash Flow (OCF)
This is found on the Statement of Cash Flows. Consistent positive OCF is needed to sustain a business over the long-term.

Free Cash Flow (FCF)
You might be generating enough money from operations, but if required to reinvest in CapEx, you could still be cash flow negative. FCF tells you this.

FCF = Operating Cash Flow − Capital Expenditures

4. WHAT IS OUR CASH NEED IN THE FUTURE?

When you ask this question you are trying to understand future:

- Cash flow
- Capital needs

By understanding OCF & FCF from the Statement of Cash Flows and pairing it with future expectations, you can get a good idea of future cash needs. way to view this, you can also do this by:

While a cash flow forecast is the best way to view this, you can also do this by:

Cash need for reinvestment
We already calcuated FCF, which tells you what CapEx was.

Now we need to plan for future CapEx. Look through your historical data, equipment you have, and future business plans and figure out what upcoming CapEx is and how you're going to pay for it.

Understanding seasonality & outlook
Look at past years to better understand how Revenue, Profit, and Cash Flow move during the year.

This will help you understand when you are typically at a cash low point. Also understanding industry outlook will allow you to make adjustments off the norms.

Cash Conversion Cycle
Simply, CCC is how long it takes from investment (purchase of inventory) to a collection of revenue (cash in hand.

Income Statement
This answers whether or not you've made a profit over a given period of time.

Revenue - Expenses = Profit

Revenue = money coming in from product or service sold

Expense
* Cost of Goods Sold = cost directly related to revenue
* Overhead Expense = cost of doing business

Statement of Cash Flows
This answers how cash has been spent over a period of time.

Net Increase/Decrease of cash during period+ Cash at beginning of period = Cash at end of period

The net increase/decrease is broken down into 3 categories:
• **Operating Activities** (changes related to day-to-day biz)
• **Investing Activities** (purchase or sale of assets)
• **Financing Activities** (changes in debt and capital structure)

5. WHAT IS OUR DEBT LOAD?

Understanding how much debt you have tells you your ability to pay current and future obligations. Liabilities are broken down into Current (due in < 1 year) and Non-Current. Using different ratios, you can understand the health of the company, as related to debt.

Debt-to-equity Ratio = Debt / Equity

< 1 = safe ; 2 = risky
Watch your monthly trends and look to industry averages.

Quick Ratio = Current Assets – Inventory / Current Liabilities

This measures your ability to meet your short-term obligations with your most liquid assets.

A higher ratio = better liquidity and financial health (but it can be too high).

Current/Working Capital Ratio = Current Assets / Current Liabilities

This measures your ability to pay obligations due within one year.

Remain above 1 to remain healthy, but too high means you're using capital inefficiently.