Bridging the Gap with Transparency

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Bridging the “Forecast” Gap

- **Analyzing Cash Flow / Debt Capacity**
- **Comparing Projected Debt Capacity**

- **Providing transparent projections**
- **2nd Level Due Diligence**
- **Build the business**

History used to predict future performance

Historic Debt Service

FISCAL YEAR:	12.31.2014	12.31.2015	12.31.2016
Revenue	$10,000,000	$11,000,000	$15,000,000
Revenue Growth		10%	36%
Net Profit	50,000	75,000	150,000
Interest Exp.	85,000	95,000	100,000
Income Taxes	7,500	15,000	37,500
Depreciation & Amortization	200,000	205,000	210,000
"EBITDA"	342,500	390,000	497,500
Existing Annual Debt Service			
$1,000,000 Line of Credit	40,000	40,000	40,000
$500,000 Equipment Loan	110,499	110,499	110,499
$1,200,000 Building Loan	106,515	106,515	106,515
Total Annual Debt Service	257,014	257,014	257,014
Debt Service Coverage Ratio:	1.33	1.52	1.94
(EBITDA / Annual Debt Service)			
Surplus (Deficit) Cash Flow	85,486	132,986	240,486

Adding NEW Debit Service

FISCAL YEAR:	12.31.2014	12.31.2015	12.31.2016
Revenue	$10,000,000	$11,000,000	$15,000,000
Revenue Growth		10%	36%
Net Profit (Loss)	50,000	75,000	150,000
Interest Expense	85,000	95,000	100,000
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$1,200,000 Building Loan	106,515	106,515	106,515
NEW - $1,500,000 Equipment	250,000	250,000	250,000
Total Annual Debt Service	507,014	507,014	507,014
Debt Service Coverage Ratio:	0.68	0.77	0.98
(EBITDA / Annual Debt Service)			
Surplus (Deficit) Cash Flow	(164,514)	(117,014)	(9,514)

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Projections used to support the request

Historical cash flow with NEW Debt

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Adding projected growth

FISCAL YEAR:	12.31.2017	12.31.2018	12.31.2019
Revenue	$18,000,000	$22,000,000	$25,000,000
Revenue Growth	20%	22%	14%
Net Profit (Loss)	100,000	150,000	250,000
Interest Expense	140,000	145,000	140,000
Income Taxes	15,000	30,000	62,500
Depreciation & Amortization Exp.	450,000	455,000	475,000
"EBITDA"	705,000	780,000	927,500
Existing Annual Debt Service			
$1,000,000 Line of Credit	40,000	40,000	40,000
$500,000 Equipment Loan	110,499	110,499	110,499
$1,200,000 Building Loan	106,515	106,515	106,515
NEW - $1,500,000 Equipment	250,000	250,000	250,000
Total Annual Debt Service	507,014	507,014	507,014
Debt Service Coverage Ratio:	1.39	1.54	1.83
(EBITDA / Annual Debt Service)			
Surplus (Deficit) Cash Flow	197,986	272,986	420,486

Providing transparency within projections

What can be provided?

- New Contracts Awarded
- Back logs
- Efficiency analysis
- Insourcing work
- Capacity analysis

How can these be quantified?

- Contract = $5 million
  - Similar jobs 20% margin
- Extension / increase of exist job (little unknown)
- Replacing 20% faster (machining hours)
- Adding 20% capacity
  - Eliminating outsourcing

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Examples of “bankable” information

2nd Level Due Diligence Providing:

Similar Job: Signed $5 million P.O.

- Copy of 2015 quote and Completed Job Report
- Copy of historical financial statements

Insourcing work: 2016 $5 million outsourced

- Jobs In Progress Report
- Completed Projects Report (outsourced)
- Completed Projects Report (In House)

Contract extension or increase (volume)

- Contract with same terms & conditions (little unknown)
- Completed Jobs Report

Direct contract with Credit Rated company (Ford, Boeing, Stryker)

- Contract with payment terms
- A/R history (?)

Quantifying the Data:

Build projections based on similar jobs & historical margins

- Calculate 2015 margins (compare with quote/estimate)
- Break out expense items (labor, machine time, COGS)
- Layer revenues over similar jobs & prior year margins

Build projections off old projects

- Use margins form historic jobs that were completed in house
- Compare with completed outsourced jobs
- Calculate COGS savings & compare with CapEx cost
  - Labor, machine time, freight, etc.

Build projections based of original contract

- Completed Job Log showing historical margins & expenses
- Multiply by new contract growth (in time or volume)
- Build out projections account for wear & tear, etc.

Focus on significance of project

- Essential (or substituted)?
- Quality margins
- Trademarks, patents, etc.

Always build the business

- Maintain liquidity (borrowed)
- Low Line of Credit utilization
- Prompt collection of receivables
- Reduce Customer concentration
- Low Leverage – Relative to Industry
- Know your industry cyclicality
- Maintain Resume / “Brag Book”
- Exercise your banker

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