



Telling Your Financial Story

Presented By

Seth Webber, Principal



Katy Whitehead, Senior Analyst

September 21, 2017



Agenda

1 INTRODUCTION

- Financial statements tell a story
- A few tales from along the way

3 MEASURING PERFORMANCE

- Common Ratios
- Additional Thoughts on Metrics

2 HOW DO WE LOSE THE NARRATIVE?

- Balance Sheet
- Income Statement

4 QUESTIONS



Financial Statements Tell a Story

BALANCE SHEET

- Asset quality
- Age of fixed assets
- Liquidity
- Leverage
- Equity cushion

INCOME STATEMENT

- Profitability
- Major expense categories
- Miscellaneous

STATEMENT OF CASH FLOWS

- Cash from operations
- Investments
- Financing



Stories from Financials

HIGH INVENTORY LEVELS

RELIABLY RECURRING “NON-RECURRING” ITEMS

CHANGING ENVIRONMENT / CHANGING CAP EX

INVENTORY TURNS

GROWTH VERSUS DISTRIBUTIONS



Balance Sheet

INCREASING THE ASSET BASE

- Large year-end purchases
- Reclassification of inventory
- Accounts receivable

DECREASING THE ASSET BASE

- Off-balance sheet assets
- Highly depreciated assets



Balance Sheet

LIABILITY / EQUITY

- Current/non-current classification issues
- Extending payments
- Unrecorded liabilities
- Friendly debt
- Reclassification of debt as equity (or vice-versa)
- Recognizing large year-end sales



Income Statements

DISTORTING THE PROFIT PICTURE

- Big contract / unusually large sale
- One-time expenses
- Miscellaneous expenses
- Related party transactions
- Owner perks
- Changing sales mix
- Changing accounting methods

Ratio Analysis

LIQUIDITY AND LEVERAGE ARE IMPORTANT METRICS

1.5+

CURRENT RATIO

1.0+

QUICK RATIO

1.5+

CASH COVERAGE

3.0-

DEBT TO EQUITY

Ratio Analysis

ANALYZING OPERATING CYCLE

- Consistency with terms of A/R and A/P
- Inventory turns consistent with industry or business model
- Consistency over time
- Important when analyzing working capital needs

DAYS A/R

DAYS INVENTORY

DAYS A/P

Ratio Analysis

ANALYZING PERFORMANCE RATIOS

- Direct costs
- Overhead costs
- How much money remains?

GROSS MARGIN

OPERATING MARGIN

NET PROFIT MARGIN

Ratio Analysis

DUPONT ANALYSIS TO STUDY SOURCE OF RETURNS

NET PROFIT MARGIN

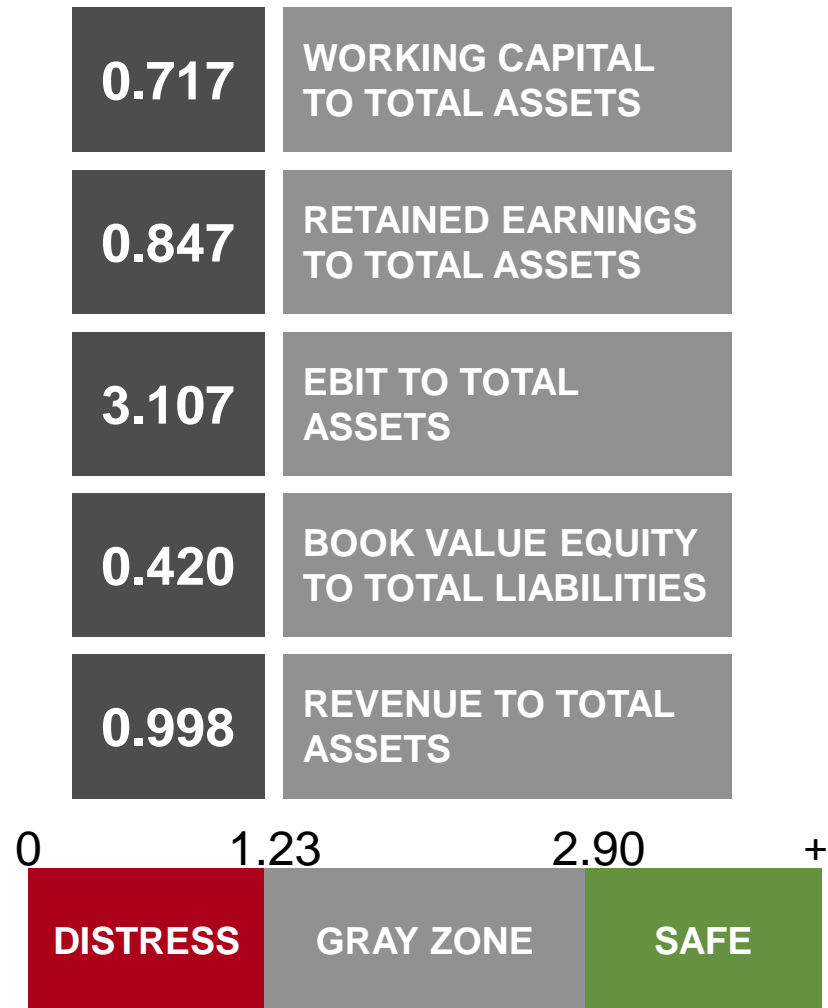
TOTAL ASSET TURNOVER

LEVERAGE

RETURN ON EQUITY

Ratio Analysis

ALTMAN Z' SCORE – BANKRUPTCY PREDICTOR



Questions





Contact Us



SETH WEBBER

Principal
swebber@berrydunn.com
207-541-2297

KATY WHITEHEAD

Senior Valuation Analyst
kwhitehead@berrydunn.com
207-541-2335