BRINGING IT ALL TOGETHER

Part of the Finance & Accounting Series

Premiere Date: November 19, 2014

ChamberWISE Financial Poise™ West LegalEdcenter®

MEET THE FACULTY

- J. Richard Claywell, International Association of Consultants Valuators and Analysts
- Gary Frantzen, Alvarez & Marsal
- Garth Tebay, Tebay Associates, LLC

Moderator: Todd A. Zoha,

Stage Capital, LLC

Financial Poise

Practical and entertaining education for business owners and executives, accredited investors, and their legal and financial advisors.

For more information, visit www.financialpoise.com

DISCLAIMER: THE MATERIAL IN THIS PRESENTATION IS FOR INFORMATIONAL PURPOSES ONLY. IT SHOULD NOT BE CONSIDERED LEGAL ADVICE. YOU SHOULD CONSULT WITH AN ATTORNEY TO DETERMINE WHAT MAY BE BEST FOR YOUR INDIVIDUAL NEEDS.

ABOUT THIS SERIES & WEBINAR

There is a saying: *"If you don't know your numbers, you don't know your business."* This series was created to teach small business owners enough about finance and accounting so that they can have an intelligent conversation with their CFO or controller.

Bringing It All Together

This webinar will integrate the concepts discussed throughout the Finance & Accounting series for 2014. Our experts will tie together the complex concepts discussed into a practical framework for you to apply to your everyday business.

What are the income statement, balance sheet and statement of cash flows? What do they measure?

- Income Statement (or Profit & Loss Statement)
  - Measures the profitability of a business
  - On an accrual (not cash) basis
  - For a period of time (or financial period)
- Balance Sheet (or Statement of Financial Position)
  - Quantifies the assets, liabilities and shareholders' equity of a business
  - Represents the ending balances at a point of time (or financial period)
- Statement of Cash Flows
  - Quantifies the cash generated or used by a business
  - On a cash basis (unlike the income statement that is on an accrual basis)
  - For a period of time (or financial period)

How are the financial statements related to one another?

- Revenue / accounts receivable / change in AR
- Cost of goods sold / inventory / change in inventory
- Net income / retained earnings
- Capital expenditures / property, plant & equipment / depreciation

What financial ratios can be calculated from the financial statements? What can a financial analyst infer from the results of those ratios?

- Profitability Ratios – measure the profitability of a company
- Liquidity Ratios – measure the ability of a company to remain in business
  - Current and quick ratios
- Activity Ratios – measure how well management is utilizing company resources
  - AR, AP and Inventory turnover ratios
- Leverage Ratios – measure the extent to which a company is relying on debt to fund its operations

How can management use the information provided by their financial statements to improve performance?

- Benchmarking
  - Normalize for unusual or non-recurring items
  - Identify comparable companies
  - Variance analysis
  - Examples
- Timing of financial statements
  - Once finalized "too late" for management to take corrective action
  - Management reporting of key performance indicators (KPIs)
    - ✓ Weekly flash reports
    - ✓ Monthly financial / operational reports

MORE ABOUT THE FACULTY:

J. Richard Claywell

J. Richard Claywell, CPA holds the additional designations as a Certified Business Appraiser (**CBA**), Accredited Senior Appraiser in Business Valuation (**ASA**), International Certified Valuation Specialist (**ICVS**), Certified Valuation Analyst (**CVA**), Accredited in Business Appraisal Review (**ABAR**), Certified Merger & Acquisition Advisor (**CM&AA**), Master Analyst in Financial Forensics (**MAFF**), Certified in Fraud Deterrence (**CFD**). Richard has been a CPA since 1982. Richard was a controller of a public company with 13 subsidiaries and also a controller of a closely held company with 21 subsidiaries. Richard has been self employed since 1984 and has concentrated ins practice in business valuations and litigation support since 1985.

Richard has served on the National Association of Certified Valuation analysts Executive Advisory Board, Ethics Oversight Board and numerous committees. Richard currently serves as the Director of Education for the International Association of Consultants Valuators and Analysts. Richard is responsible for the business valuation educational materials for 55 countries. Richard has taught business valuation courses in the US, China, Taiwan and Korea.

Richard has performed over 1,000 business valuations related to Estate and Gifting, shareholder disputes, Family Limited Partnerships, Buy/Sell agreements, Goodwill, Divorce, Intellectual Property, Sale of Businesses, earn-outs, etc. Richard also performs economic damages, wrongful termination and personal injury analysis. Richard has testified in Texas County and State Courts. Richard has also testified in Bankruptcy and Federal Court. Richard has presented numerous seminars on the topic of business valuations.

MORE ABOUT THE FACULTY:

Gary Frantzen

Gary Frantzen leads Alvarez & Marsal's Valuation Services practice in Chicago. He specializes in the valuation of businesses and business interests including equity, liabilities and debt securities, options and other derivative securities / instruments, intellectual property and other tangible and intangible assets.

Mr. Frantzen has provided opinions of value, fairness and solvency for a wide variety of purposes including financial reporting, tax planning and reporting, dispute resolution, mergers and acquisitions and other business purposes.He has advised clients regarding the value impact of potential strategic alternatives, business plans and enterprise transactions; valued assets for business combinations, fresh start accounting and impairment measurement; valued business interests for tax planning and reporting, and has provided independent fairness and solvency opinions regarding contemplated transactions.

With more than 25 years of experience, Mr. Frantzen has provided valuation advice in a wide variety of situations and industries to management, board members and special committees, attorneys, individuals and the courts. Notable assignments include: the valuation of tangible and intangible assets of a multi-billion dollar, multinational corporation for fresh start accounting; the valuation of the assets of a regional health system with respect to its acquisition by a major university medical center; the valuation of large water and transportation infrastructure projects for financing-related purposes and financial reporting; the valuation of the tangible and intangible assets of a large, multinational chemical producer acquired by a large private equity sponsor; and the valuation of the shares of a publicly-traded hospital management company related to a dissenting shareholder dispute when their shares were acquired in a private transaction.

Mr. Frantzen also developed economic value measurement frameworks for developing strategic and financial alternatives, measuring business unit value contributions and analyzing pro forma performance of potential business combinations. He has appeared as an expert witness in depositions, hearings and trials regarding valuation disputes litigated in administrative procedures, state courts and federal court.

Mr. Frantzen has worked with clients in healthcare services, chemicals, transportation, automotive and aerospace, construction materials, business and consumer services, infrastructure and utilities, financial institutions and insurance, food and agricultural products, paper and packaging, retail and wholesale distribution and industrial products. Most recently, Mr. Frantzen managed the Chicago office and served as the national chair of the healthcare industry practice at American Appraisal Associates. Earlier, he was a partner at Arthur Andersen, where he was the co-leader of the strategic valuation services group in Chicago.

Mr. Frantzen earned a bachelor's degree in civil engineering from the University of Illinois at Urbana-Champaign and master's degree in business administration from DePaul University in Chicago. He is a Chartered Financial Analyst (CFA) and registered as a General Securities Representative and Securities Agent (FINRA Series 7 and 63). He is a member of the American Society of Appraisers, The Executives Club of Chicago and the CFA institute and CFA Society of Chicago.

MORE ABOUT THE FACULTY:

Garth Tebay

Mr. Tebay is a practicing Certified Public Accountant, Certified Valuation Analyst, and Certified in Mergers & Acquisitions with over 42 years of experience. He is the founder and Managing Partner of Value Defined, LLC, a business valuation and litigation support firm in Maumee, Ohio. He is also the Managing Partner of Tebay Mosley Associates, LLC, full service accounting, tax, and consulting firm in Maumee, Ohio as well as Managing Director of Source Companies Great Lakes Region, LLC (an affiliate of Source Companies, LLC in Pennsylvania) which provides value growth consulting and investment banking services to owners of medium-sized businesses.

Mr. Tebay received his Bachelor of Science in Accounting in 1972 from Findlay College in Ohio. He then received certification as a Public Accountant in 1975. In 1997, he became a Certified Valuation Analyst, and was awarded the CM&A (Certified in Mergers & Acquisitions) in 2001. He is a member of the Ohio Society of Certified Public Accountants, the American Institute of Certified Public Accountants (Tax Division and Consulting Services Division), the Alliance of Merger and Acquisition Advisors, National Association of Certified Valuation Analysts, through which he is a member of the NACVA Standards Committee (provide interpretations and expand upon technical standards), the NACVA Training Development Team, the NACVA Course Review Committee (dedicated to reviewing NACVA's substantial curriculum), member of NACVA Mentor Support Group, the NACVA Ethics and Oversight Board, and the NACVA Speakers' Bureau, Toledo Estate Planning Council, as well as many other local memberships. Over the years, Mr. Tebay has held offices and served on many boards for local organizations. In 1989, he formed Tebay Mosley Associates, LLC, which has experienced steady growth in servicing small to medium sized business with nearly every aspect of their personal and business financial needs. Mr. Tebay's primary focus within the firm is management consulting services, which includes business valuations, litigation support, and mergers and acquisitions. Prior to founding Tebay Mosley Associates, LLC, Mr. Tebay was a Partner at Brell, Tebay, Holt & Dettinger, Inc., and was CFO & Director of Westhaven Services.

Mr. Tebay and his staff have performed hundreds of valuations since 1980. Mr. Tebay has also been qualified as an expert witness in various municipal and federal courts and has given testimony in divorce cases, personal injury cases, lost profits, economic damages, shareholder disputes, and federal bankruptcy court. He is often called upon to consult in various valuation matters and has handled numerous merger and acquisition transactions. In addition, Mr. Tebay has also served as an arbitrator for the American Arbitration Association.

As an instructor for the National Association of Certified Valuation Analysts, Garth has taught the Fundamental Techniques & Theory (FT&T days 1 and 2) course as well as Case (day 3) at NACVA Training Centers since 2001, presented the program for the Internal Revenue Service, the Small Business Administration (SBIC Division), The Korean Valuation Association, presented to the National College of District Attorneys, wrote instructional materials for NACVA program "Business Valuation Fundamentals for the CPA" (2005), co-authored instructional materials for NACVA programs "Fundamentals, Techniques & Theory" & "Case" (2005), and has been recognized with NACVA's "Outstanding Member Award" (2005) as well as their awards "Instructor of Exceptional Distinction" in 2003, 2004, 2005 and "Instructor of Great Distinction" in 2002. Currently, he is the Team Leader for FT&T and Case. In addition to authoring portions of the training curriculum, Mr. Tebay has presented numerous seminars on the topic of business valuations.

MORE ABOUT THE FACULTY:

Todd A. Zoha

Todd Zoha is the CFO of Stage Capital, LLC. Stage Capital is a diversified holding company. Prior to joining Stage Capital, Todd was a Director in the Turnaround and Restructuring Services Group at AlixPartners, LLP. Todd graduated from Baldwin-Wallace College with a Bachelor of Science degree in mathematics and business administration. He earned his Master of Business Administration, in banking and finance, from the Weatherhead School of Management at Case Western Reserve University.

APPENDIX

The Income Statement
The Balance Sheet
The Statement of Cash Flows

What is an income statement? What does it measure?

- Income Statement (or Profit & Loss Statement)
  - Measures the profitability of a business
  - On an accrual (not cash) basis
  - For a period of time (or financial period)
- Accrual (not cash) accounting
  - Revenue and expense recorded when incurred not when cash transaction occurs
- Period of time / Financial Period
  - Month, quarter or annual
  - Year-to-date (YTD) or last twelve months (LTM)
  - Calendar or fiscal year

What is the structure and format of a typical income statement?

($ in millions)

		For the Calendar Year Ended 12/31/2013
Revenue	A	$2,500
Cost of Sales	B	1,750
Gross Profit	C = A - B	750
SG&A	D	350
D&A	E	250
Operating Income	F = C - D - E	150
Interest Expense	G	50
Pre-Tax Income	H = F - G	100
Taxes @ 40%	I	40
Net Income	**J = H - I**	**$60**

- Revenue = volume x price
- Cost of Sales = the direct costs incurred to generate revenue
  - Typically variable costs
  - Includes, but not limited to, materials and labor
- Operating expenses include selling, general and administrative (SG&A) and depreciation and amortization expense (D&A)
  - Generally fixed costs
  - D&A is a non-cash expense
  - Often includes non-recurring and unusual items such as impairment and restructuring charges and sales of assets
- Common size income statement
  - Each line item represented as a % of revenue

What are the key financial ratios calculated from the income statement?

- Gross Margin = Gross Profit / Revenue
  - Measures the profit generated from every $1 in revenue prior to overhead and other expenses
- Operating (or EBIT) Income
  - The profit of the business from its operating activities before taking into account the capital structure of the business (i.e., how it is financed)
- Net Income
  - The profit of the business available to (common) shareholders
  - If positive, either paid to shareholders in the form of dividends or kept in the business in the form of retained earnings

Common pitfalls and challenges with the income statement?

- Accrual, not cash
  - EBITDA is at best a proxy for cash
- Historical view of performance
- Benchmarking
  - Normalize for unusual or non-recurring items
  - It is difficult to identify comparable companies due to different accounting methods, capital structures and fiscal years
- Taxes
  - The legal structure of the entity and jurisdiction of domicile and business will dictate the tax obligations of the organization

What is a balance sheet? What does it measure?

- Balance Sheet (or Statement of Financial Position)
  - Quantifies the assets, liabilities and shareholders' equity of a business
    - ✓ Assets: The "property" a business owns that has value
    - ✓ Liabilities: The obligations of a business that must be paid under certain conditions and time frames
    - ✓ Equity: The contributions of the shareholders plus retained earnings
  - Fundamental balance sheet equation
    - ✓ Total assets = total liabilities + shareholders' equity
  - Represents the ending balances at a point of time (or financial period)
- Period of time / Financial Period
  - Month, quarter or annual
  - Year-to-date (YTD) or last twelve months (LTM)
  - Calendar or fiscal year

What is the structure and format of a typical balance sheet?

($ in millions)

Assets	**12/31/2013**	**Liabilities**	**12/31/2013**
Cash	A	Accounts Payable	I
Accounts Receivable	B	Accrued Expenses	J
Inventory	C	Current Portion of LTD	K
Current Assets	D = A + B + C	**Current Liabilities**	L = I + J + K
PP&E, net	E	Long-Term Debt (LTD)	M
Other Non-Current Assets	F	**Total Liabilities**	N = L + M
Non-Current Assets	G = E + F		
		Shareholders' Equity	
		Common stock	O
		Paid-in Capital	P
		Retained Earnings	Q
		Total Shareholders' Equity	R = O + P + Q
TOTAL ASSETS	H = D + G	**TOTAL LIABILITIES & SHAREHOLDERS' EQUITY**	S = N + R

Represents a company's capital structure (debt versus equity financing)

- Cash – Bank versus Book
  - Difference is float
- Current assets
  - Cash, accounts receivable, inventory (raw materials, work-in-process, finished goods)
  - Items that are convertible into cash within one year
- Non-current assets
  - Property, plant and equipment, goodwill, etc.
  - Items that are more permanent in nature
- Assets are listed in descending of liquidity
- Current liabilities
  - Accounts payable, accrued expenses, CP LTD
  - Obligations due within one year
- Liabilities are listed in order of priority for payment

What are the key financial ratios calculated from the balance sheet?

- Liquidity Ratios – measure the ability of a company to remain in business
  - Current and Quick ratios
- Activity Ratios – measure how well management is utilizing company resources
  - AR, AP and Inventory turnover ratios
- Leverage Ratios – measure the extent to which a company is relying on debt to fund its operations
  - Debt-to-equity ratio

Common pitfalls and challenges with the balance sheet?

- Valuation
  - Cost versus market
- Accounting Principles
  - Material impact on financial statements (for example, inventory LIFO versus FIFO)
  - How to depreciate fixed assets? Straight line or accelerated? Generally does not reflect the earning power of the asset.
- Benchmarking
  - It is difficult to identify comparable companies due to different accounting methods, capital structures and fiscal years

What is the statement of cash flows? What does it measure?

- Statement of Cash Flows
  - Quantifies the cash generated or used by a business
    - ✓ Cash is King
  - On a cash basis (unlike the income statement that is on an accrual basis)
    - ✓ There are timing differences between the recordation of a transaction (on the income statement) and when the related cash is actually received or disbursed
      - ➢ Revenue may not have been collected
      - ➢ Expenses may not have been paid
  - For a period of time (or financial period)
- Period of time / Financial Period
  - Month, quarter or annual
  - Year-to-date (YTD) or last twelve months (LTM)
  - Calendar or fiscal year

What is the structure and format of the statement of cash flows?

($ in millions)

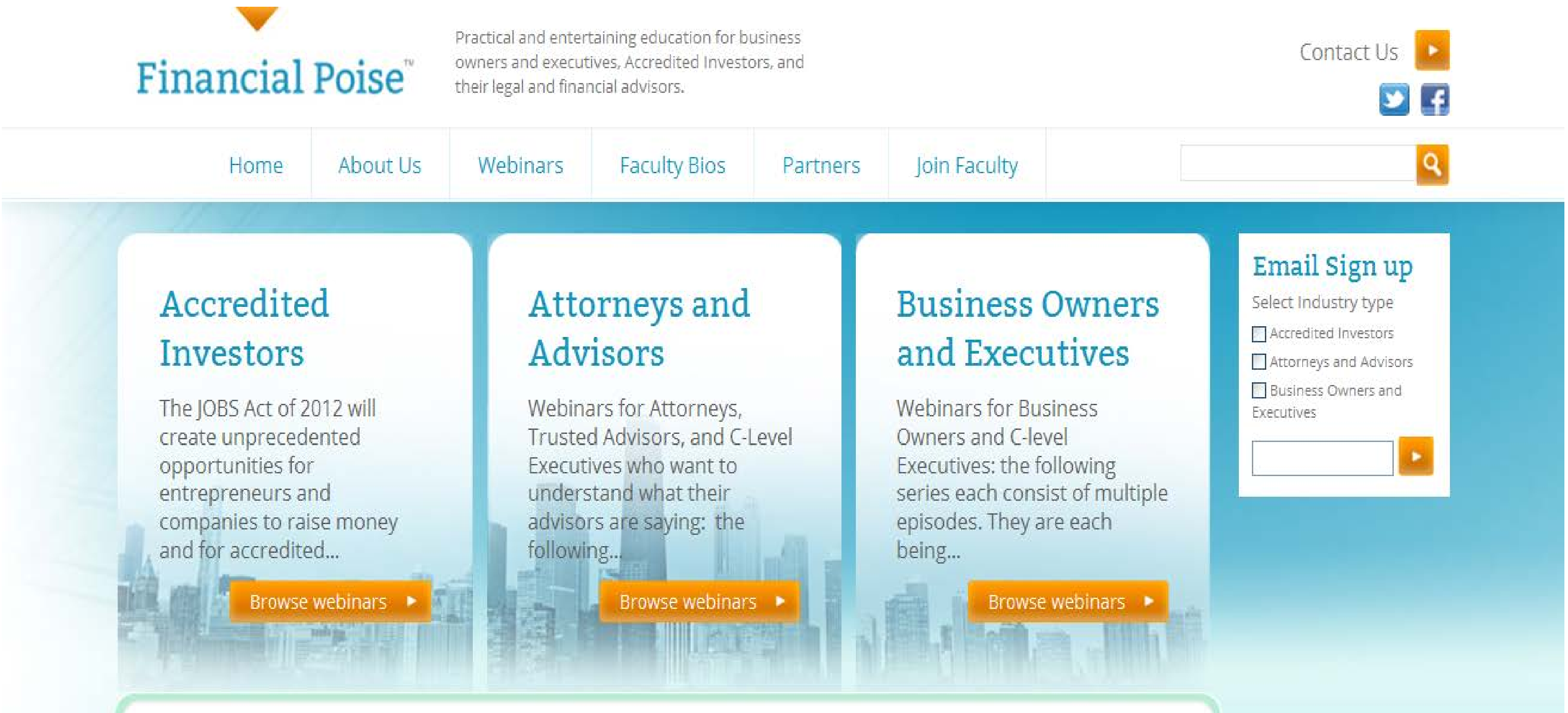
	12/31/2013
Cash Flows from Operating Activities	
Net Income	A
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Amortization	B
Depreciation	C
Change in Assets and Liabilities Affecting Operating Activities:	
Accounts Receivable	D
Inventory	E
Other Assets	F
Accounts Payable	G
Accrued Expenses	H
Other Liabilities	I
Net Cash Provided (Used) by Operating Activities	**J = A + … + I**
Cash Flows from Investing Activities	
Capital Expenditures	K
Proceeds from Sale of Property & Equipment	L
Net Cash Provided (Used) by Investing Activities	**M = K + L**
Cash Flows from Financing Activities	
Cash Distributions to Stockholders	N
Capital Contribution	O
Net Borrowings (Repayments) on Lines of Credit	P
Repayment of Long-Term Debt	Q
Proceeds from the Issuance of Long-Term Debt	R
Net Cash Provided (Used) by Financing Activities	**S = N + … + R**
Net Increase (Decrease) in Cash and Cash Equivalents	**T = J + M + S**
Cash and Cash Equivalents, beginning balance	U
Cash and Cash Equivalents, ending balance	**V = T + U**

- Indirect vs. direct method
- Operating activities
  - Converts the items reported on the income statement from accrual to cash
  - *Example: A sale is recognized as revenue on the income statement and a receivable is recorded on the balance sheet. This is non-cash transaction. When the receivable is collected, the receivable is eliminated (or reduced). This represents a cash transaction.*
- Investing activities
  - Reports the purchase and sale of property, plan and equipment
- Financing activities
  - Reports the issuance and repurchase of the company's own bonds and stock and the payment of dividends
- Supplemental Information
  - Cash payments for interest and taxes

Common pitfalls and challenges with the statement of cash flows?

- Understanding the changes in cash
  - For a change in assets (other than cash) – the change in cash is in the <u>opposite</u> direction
    - ✓ For example, if accounts receivable decrease, the cash balance increases (i.e., cash is collected)
  - For a change in liabilities and owners equity – the change in cash is in the <u>same</u> direction
    - ✓ For example, if accounts payable decrease, the cash balance decreases (i.e., cash is disbursed to pay invoices)
- Prepared using historical information and does not provide complete information to assess the future liquidity of a company

Financial Poise



www.financialpoise.com

DailyDAC™ ChamberWISE Financial Poise™

Accredited Investor Markets (AIMkts)™

COMMERCIAL BANKRUPTCY ALTERNATIVES™ COMMERCIAL BANKRUPTCY INVESTOR™ COMMERCIAL BANKRUPTCY LITIGATION™

<u>About DailyDAC</u>

DailyDAC, LLC provides continuing education to business owners and executives, accredited investors, and their respective legal and financial advisors. Its websites, webinars, and books provide Plain English, sometimes entertaining, explanations about legal, financial, and other subjects of interest to these audiences. Click here for more information.