

Summary

Your Profit Story

The Graphic

This graph shows the relative value of each of the elements of your Operating Profit for the current period.

The Table

This table shows the key indicators for the current period as well as the movement between your current and last periods. A green traffic light indicates an improvement and red a deterioration. You should review each element of the table.

Revenue	Understand why Revenue has changed from last period. What was the budget? How does the change in Revenue compare to your market?
Gross Margin %	Understand why Gross Margin % has changed, it could be due to Price increases or decreases, or changes in the cost of your Products or Services. A change in mix of the Products you sell or the Services you offer can also impact on your Margin
Operating Profit %	Compare the movement in Operating Profit % to the movement in Gross Margin %. Understand the reasons for differences - focus on Overheads.
Net Profit %	Compare the movement in Net Profit % to the movement in Operating Profit %. Understand the reasons for differences. Items such as Interest or Tax will impact this number.

Your Balance Sheet Story

The Graphic

This graph shows the relative value of your current period Balance Sheet as an equation, $Equity = Total Assets - Total Liabilities$.

The Table

This table shows the key indicators for the current period as well as the movement between your current and last periods. A green traffic light indicates an improvement and red a deterioration. You should review each element of the table.

Accounts Receivable Days	Have the days changed from last period? If so, do you know why? How can Accounts Receivable be reduced? How do the days as calculated compare to your terms of trade?
Inventory Days	Have the days changed from last period? If so, do you know why? How can Inventory be reduced?
Accounts Payable Days	Have the days changed from last period? If so, do you know why? Understand any changes.

Working Capital Days	The sum of the Accounts Receivable Days plus the Inventory Days less the Accounts Payable Days - It is important to ensure that Working Capital Days are not increasing.
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Your Cash Flow Story

The Graphic

This graph shows the Total Debt for each period as well as the split between Short and Long Term Total Debt. Increasing Debt is not necessarily a problem, however it is imperative to understand why this is occurring. Note this graphic shows only Total Debt, your business may also have Cash balances that are not included in this graph.

Debt could be increasing due to **some** or **all** of the following:

Your business is making a Loss	Understand, is this a one off, or has the business been losing money consistently?
Dividends/Distributions paid	Large distributions can impact Cash Flow and often go unnoticed in analysing performance.
Increasing Working Capital	Accounts Receivable or Inventory are growing faster than Revenue - this is quite a common problem.
Increasing Other Capital	Look for purchases of Fixed Assets, increases in Other assets or repayments of Other Liabilities.

The Table

This table shows the key indicators for the current period as well as the movement between your current and last periods. A green traffic light indicates an improvement and red a deterioration. You should review each element of the table.

Cash	Cash at Bank or on deposit. Could excess Cash be used to pay off Debt?
Bank Loans Current	Current Debt including all Short Term Interest Bearing Loans, Bank Overdrafts, Notes Payable, Bank Loans and the Current Maturity of Long Term Debt
Bank Loans Non Current	Non Current Debt including all Long Term Interest Bearing Loans, Notes Payable and Bank Loans due after more than one year
Net Cash Flow	The change in Net Debt. This is the change in Total Debt less the change in Cash

Chapter 1

Profitability

The 4 boxes highlight the key elements of your Chapter 1 Profitability:

- Revenue
- Gross Margin
- Operating Profit
- Retained Profit

The numbers shown are for the current period. Below each item the \$ change from the last period is shown.

Note: If the current and prior periods are different lengths the changes are not shown.

Profitability Trends

This graph shows the trends of your 3 most important Chapter 1 Profitability measures:

- Gross Margin %
- Operating Profit % (Also known as EBIT %)
- Net Profit %

Tips:

- Focus on any variations in trends, for example, Gross Margin % is increasing but Operating Profit % is decreasing
- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered
- Go to Your power of One for ways to improve your Profitability

Revenue Growth vs Cost of Goods Growth

This graph compares your growth in Revenue with your growth in Cost of Goods. Ideally Revenue will grow at a faster rate than Cost of Goods. It is vital to understand the reasons for the difference in growth rates.

If Revenue is growing faster than Cost of Goods it could be due to one or more of the following:

- Price increases
- Cost of Goods reductions
- A change in the mix of products or services sold towards ones with higher margins

If Cost of Goods are growing faster than Revenue it could be due to one or more of the following:

- Price reductions
- Cost of Goods increases
- A change in the mix of products or services sold towards ones with lower margins

Remember that in many cases it could be a mix of some or all of the above changes.

Tips:

- A business cannot sustain increases in Cost of Goods greater than increases in Revenue over the long term
- Focus on the trend of the Revenue growth
- A change in Cost of Goods growth with a corresponding opposite change in Overheads growth could be simply a reallocation between the two
- Maximum value will be achieved from this graph if 4 periods of data have been entered
- Go to Your Power of One for ways to improve your Gross Margin

Revenue Growth vs Overhead Growth

This graph compares your growth in Revenue with your growth in Overheads. Ideally the growth in Overheads will be at a slower rate than growth in Revenue. It is vital that you understand the reasons for the difference in growth rates.

Many businesses are of the belief that most of their Overheads are fixed and therefore do not increase in line with Revenue growth. This graph shows the reality of the relationship and often proves that no relationship exists.

It is important to understand what the true drivers of Overheads are. In most businesses, Overheads are neither completely fixed nor variable. Understanding what factors drive costs and understanding the level of activities that create costs is essential. Activities create most costs **NOT** Revenue.

Tips:

- A business cannot sustain increases in Overheads greater than increases in Revenue over the long term
- Focus on the trend of the Revenue growth
- A change in Overheads growth with a corresponding opposite change in Cost of Goods growth could be simply a reallocation between the two
- Maximum value is achieved from this graph if 4 periods of data have been entered
- Go to Your Power of One for ways to improve your Operating Profit

Profitability Ratios

Your 13 key Chapter 1 Profitability Ratios are shown here. The first column shows the prior period. The second column shows the current period. The third column shows the movement between prior and current with a green traffic light indicating if the movement is positive or a red traffic light indicating a negative.

All relevant calculations are period sensitive and have been annualised if any periods are not for 12 months. If current and prior periods are different lengths the movement column takes the relevant time periods into account.

Tips:

- Focus your attention on the red traffic lights and understand why there are negative variances
- Go to Your power of One for ways to improve Profitability

Chapter 2

Working Capital

The 4 boxes show the components that make up your Chapter 2 Working Capital:

- Accounts Receivable
- Inventory
- Accounts Payable
- Total Working Capital

The numbers shown are for the current period. Below each item the \$ change from the last period is shown.

Working Capital Trends

This graph shows the trends of your key Chapter 2 Working Capital items, measured in days, Accounts Payable, Inventory and Accounts Receivable.

Accounts Payable Days	What is the trend? Understand the reasons for changes.
Accounts Receivable Days	What is the trend? Understand the reason for changes, how can this be reduced?
Inventory Days	What is the trend? Understand the reason for changes, how can this be reduced?

Do you know the impact that a one day reduction in your Accounts Receivable or Inventory would have on your Cash Flow?

Tips:

- If your business is in the Service Industry and your accounts do not show Work In Process, consider estimating the amount of unbilled work if it is material
- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered
- Go to your Power of One for ways to reduce your investment in Working Capital

Your Working Capital Timeline

Understanding the relationship between the elements of your Working Capital is critical to understanding your business.

Manufacturing or Other

Your Working Capital Timeline shows the time that elapses between when you pay for your Inventory and when you Bank the Cash from the sale of that Inventory. The gap between paying and being paid **will** require funding.

Service

If you are operating in the Service Industry your Working Capital Timeline shows the gap between when you pay your people

to do the work and when your customers pay you for that work.

Note: The Cash Impact of the change between the current and last period is shown in red if a negative and green if an improvement.

Cash Impact

Cash Impact shows the effect that changes to the Working Capital Timeline had on your business. The calculation measures the impact on your Cash Flow had you achieved this period's Revenue with last period's Working Capital Cycle.

Example

The following example is used to explain the Timeline - Accounts Receivable Days 60, Inventory Days 120 and Accounts Payable Days 45

On day Zero the Inventory arrives, that Inventory is paid for 45 days later. The Inventory is sold 120 days later. The cash for the sale is banked 60 days thereafter. The total Working Capital days are 135 ($120 - 45 + 60$) this is the time that the business is 'out of pocket' from a cash flow perspective. The Inventory is paid for 45 days after it arrives, but the cash is banked 60 days after the Inventory is sold.

Tips:

- Note also the **total time** it takes from when your Inventory arrives to the day you bank the Cash for the sale of that item of Inventory. Alternatively if you are in the Service Industry, the **total time** it takes from when the work is done to when the cash is banked for that work
- Go to Your Power of One for ways to reduce your Working Capital Timeline

Working Capital per \$100

Every time you sell a product or charge for work you perform, your business generates a Gross Margin on that transaction. However, you also require investment in Working Capital to generate the next sale. This graphic shows how your Investment in Working Capital is calculated. The sum of Inventory plus Accounts Receivable less Accounts Payable is divided by Revenue to calculate Working Capital per \$100.

This graphic shows you the investment you make in each element of Chapter 2 Working Capital. What is your investment in Inventory, Accounts Receivable and Accounts Payable for each additional \$100 of Revenue you generate.

This measure is forward looking and assumes that your business will continue to operate in the same way. Therefore the next \$100 of Revenue generated, will be collected at your existing average Accounts Receivable Days, your Inventory sold will be replaced and your outstanding Accounts Payable will be paid at your existing average Accounts Payable Days.

Tips:

- A high Working Capital number often explains why a business may have Cash Flow problems
- Go to your Power of One for ways to reduce your investment in Working Capital

Investment in Working Capital per \$100

This graph shows the trends of the investment you make in Accounts Payable, Inventory and Accounts Receivable for each additional \$100 of Revenue you generate.

Investment in Working Capital is calculated by adding Accounts Receivable and Inventory and subtracting Accounts Payable.

This amount is then divided by Revenue to calculate Working Capital per \$100.

Accounts Payable	What is the trend? Understand the reasons for changes. If Accounts Payable are increasing is this sustainable?
Inventory	What is the trend? Understand the reason for changes, how can this be reduced?
Accounts Receivable	What is the trend? Understand the reason for changes, how can this be reduced? Is the investment in Accounts Receivable matched by increase in Accounts Payable

Tips:

- Increasing investment in Inventory and Accounts Receivable often explains why a business may have Cash Flow problems.
- If your business is in the Service Industry and your accounts do not show Work In Process, consider estimating the amount of unbilled work if it is material
- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered
- Go to your Power of One for ways to reduce your investment in Working Capital

Gross Margin vs Working Capital per \$100

This graph shows the comparison between your Gross Margin and your investment in Working Capital. It is vital to understand the relationship between your Gross Margin and your Working Capital. Every time you sell a product or charge for work you perform your business generates a Gross Margin on that transaction. However, you also require investment in Working Capital to generate the next sale. Investment in Working Capital is calculated by adding Accounts Receivable and Inventory and subtracting Accounts Payable. This amount is then divided by Revenue to calculate Working Capital per \$100.

There is a direct relationship between the numbers in Chapter 1 and Chapter 2:

Revenue	Accounts Receivable
Cost of Goods	Inventory
Cost of Goods	Accounts Payable

For each additional \$100 of Revenue you make a Gross Margin %, but you 'spend' on Working Capital to generate the next \$100 of Revenue.

If your investment in Working Capital is larger than your Gross Margin, then additional Revenue is going to require Cash Flow to fund that growth.

Tips:

- If your business is in the Service Industry and your accounts do not show Work In Process, consider estimating the amount of unbilled work if it is material
- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered
- Go to Your power of One for ways to increase your Gross Margin and reduce your investment in Working Capital



Working Capital Ratios

Your 9 key Chapter 2 Working Capital Ratios are shown here. The first column shows the prior period. The second column shows the current period. The third column shows the movement between prior and current with a green traffic light indicating if the movement is positive or a red traffic light indicating a negative.

All relevant calculations are period sensitive and have been annualised if any periods are not for 12 months. If current and prior periods are different lengths the movement column takes the relevant time periods into account.

Tips:

- Focus your attention on the red traffic lights and understand why you have negative variances
- Go to Your power of One for ways to reduce your investment in Working Capital

Chapter 3

Other Capital

The 4 boxes show the components that make up your Chapter 3 Other Capital:

- Fixed Assets
- Other Assets
- Other Liabilities
- Total Other Capital

The numbers shown are for the current period. Below each item the \$ change from the last period is shown.

- Other Assets is the sum of Other Current and Other Non-Current Assets.
- Other Liabilities is the sum of Other Current and Other Non-Current Liabilities. Other liabilities **EXCLUDES** Debt.

Return on Capital Trends

This graph shows the trends of three key Operating Ratios that tie Chapters 1 2 & 3 together.

Operating Profit %	Operating Profit % is calculated as Operating Profit divided by Revenue as a %. Operating profit % is the key operating measure of Chapter 1 as it shows the Profit generated from each \$1 of Revenue.
Asset Turnover	Asset Turnover is calculated as Revenue divided by Net Operating Assets. Net Operating Assets is the sum of Chapter 2 Working Capital and Chapter 3 Other Capital. Asset Turnover is a very effective measure of Balance Sheet performance as it shows the number of times a business 'turns over' its Net Operating Assets.
Return on Capital %	Return on Capital % is calculated as Operating Profit divided by Net Operating Assets as a % or simply Operating Profit % x Asset Turnover. Return on Capital % measures what Return (Operating Profit) you are getting from the Operating Assets (NOA) you have invested in. There is one key question regarding this measure: Is your Return on Capital % adequate and how do you improve it?

Tips:

- Focus on any variations in trends for example Operating Profit % is increasing but Asset Turnover is decreasing and what the overall impact is on Return on Capital %
- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered

Return on Capital %

This graphic shows your Return on Capital %, it indicates what Return (Operating Profit) you are getting from the Operating Assets (NOA) you have invested in. What is more important in your business, your Profit or your Balance Sheet? The reality is, for most businesses, both are equally important. Return on Capital % combines the Profit and Balance Sheet into one measure, linking Chapters 1, 2 and 3 together.

Profit

Operating Profit % is calculated as Operating Profit divided by Revenue as a %. Operating Profit % is the key operating measure of Chapter 1 as it shows the Profit generated from each \$1 of Revenue.

Balance Sheet

Most businesses require Assets in order to generate Profit, for example Inventory or Fixed Assets. It is critical that we utilise our assets as efficiently as possible. Assets Turnover measures how efficiently we use our Assets.

Asset Turnover is calculated as Revenue divided by Net Operating Assets. Net Operating Assets is the sum of Chapter 2 Working Capital and Chapter 3 Other Capital. Asset Turnover is a very effective measure of Balance Sheet performance as it shows the number of times a business 'turns over' its Net Operating Assets.

Return on Capital

If you multiply Operating Profit % and Asset Turnover, you get Operating Profit / Net Operating Assets, or Return on Capital %.

Your Return on Capital % measures what Return (Operating Profit) you are getting from the Operating Assets (NOA) you have invested in. Ask yourself: Is my Return on Capital % adequate and how do I improve it?

It is critical to manage both elements of your business and understand the factors that drive your Chapter 1 Profitability as well as Chapter 2 Working Capital and Chapter 3 Other Capital, and to understand the relationship between the elements of Return.

There is no obvious Benchmark Return % that you should be targetting, however the higher it is the better it is for your business. The minimum required Return on Capital % should be linked to the cost of funding your Net Operating Assets. Funding is comprised of Internal - Equity and External - Debt; each has a cost attached to it.

Example

If a business has a Return on Capital of 5% and is borrowing money at 6% to fund the Net Operating Assets, clearly borrowing at 6% to return 5% is not good business.

If a business has no borrowings, it is funded from Equity. The cost of Equity is always higher than the cost of External Debt. The business could probably get a 4% return simply putting your money in the bank instead of the risk & effort required to run a business.

Tips:

- Go to your Power of One for ways to improve your Return On Capital % by increasing Operating Profit % and Reducing Working Capital investment.
- Review your Other Capital for unused Assets that could be disposed of.

Other Capital Ratios



Your 9 key Chapter 3 Other Capital Ratios are shown here. The first column shows the prior period. The second column shows the current period. The third column shows the movement between prior and current with a green traffic light indicating if the movement is positive or a red traffic light indicating a negative.

All relevant calculations are period sensitive and have been annualised if any periods are not for 12 months. If current and prior periods are different lengths the movement column takes the relevant time periods into account.

Tip: Focus your attention on the red traffic lights and understand why you have negative variances.

Chapter 4

Funding

The 4 boxes show the components that make up your Chapter 4 Funding:

- Cash
- Total Debt
- Equity
- Total Funding

The numbers shown are for the current period. Below each item the \$ change from the last period is shown.

Total Debt is the sum of Bank Loans Current and Bank Loans Non Current. Equity is the sum of Retained Earnings, Share Capital and Reserves.

Funding Trends

This graph shows the trends of three key elements of your Chapter 4 Funding items:

Cash	The sum of any Cash holdings
Total Debt	The sum of all Current and Non Current Bank Loans
Equity	The sum of your Retained Profits, Issued Shares and any Reserves. Note your Equity is calculated by CFS as the difference between your Total Assets and your Total Liabilities.

Tips:

- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered

Your Funding

Chapter 4 Funding is the result of the Cash Flow generated or required from Chapter 1 Profit, Chapter 2 Working Capital & Chapter 3 Other Capital.

This table summarises the impact that each Chapter has on your Cash Flow and determines if a shortfall or a surplus exists.

Chapter 1	Retained Profit or Loss
Chapter 2	Net investment or contribution from Working Capital (Accounts Receivable &

Chapter 3	Inventory & Accounts Payable)
	Net investment or contribution from Other Capital (Fixed Assets & Other Sundry Assets & Liabilities)

Shortfall

If Chapter 1, 2 & 3 generate a shortfall, it will be highlighted in red. How is that shortfall funded? There are 3 ways your business can fund a shortfall

Cash	Using cash reserves
Debt	By borrowing short or long term from your financial institution
Equity	By introducing capital into your business

Surplus

If Chapters 1, 2 & 3 generated a surplus it will be shown in green. That surplus will either be used to reduce Debt or to increase Cash or possibly reduce your Share Capital, which is shown as Capital Withdrawn.

Tips:

- Note that Non Cash items such as Depreciation are ignored as they impact on both Chapter 1 Profit and Chapter 3 Other Capital equally
- If the table shows Capital withdrawn or introduced but you did not pay in or take out any capital, check the loading of your Total Assets and Total Liabilities amounts.

Your Equation

The graphic shows your Balance Sheet as an equation, **Funding = Operations**. Operations are the Net Operating Assets that you use in your business. Net Operating Assets are comprised of Chapter 2 Working Capital and Chapter 3 Other Capital. Funding is your external Net Debt and Equity.

NetCash	The sum of total external Current and Non Current Debt less any Cash holdings
Equity	The sum of Share Capital, Retained Profits and Reserves
Working Capital	The sum of Accounts Receivable & Inventory less Accounts Payable
Other Capital	The sum of Other Current & Non Current Assets (Including Fixed Assets), less Other Current and Non Current Liabilities

It is very important to understand your funding mix. What proportion of your Operations are funding externally via Debt and internally via Equity?

It is essential to know the breakdown of your Operations (Net Operating Assets), between Chapter 2 Working Capital and Chapter 3 Other Capital. You should be managing your Working Capital on an almost daily basis e.g. collecting Accounts Receivable, managing Inventory levels. Other Capital should be reviewed on a periodic basis.

Tips:

- You do not input the Equity number into CFS, it is calculated as the difference between Total Assets and Total

Liabilities that you entered.

- If you have no Debt, any Cash balances will be shown on the Graph as a negative number.

Profit vs Cash Flow

The table is critical as it shows the relationship between Profit and Cash Flow. The table should be read left to right across the screen line by line.

The Top Section

Each Profit line is compared to the equivalent Cash Flow line and shows the difference between the accounting amount and the actual cash received or paid. The variance is shown in green if positive and red if negative.

Profit	Cash
Revenue	Cash received from customers
Cost of Goods	Cash paid to suppliers
Gross Margin	Gross Cash Profit (cash banked from sales - cash paid to suppliers)
Overheads excl Depreciation	Overheads excl Depreciation
Operating Cash Profit	Operating Cash Flow

Example:

If Revenue is \$800,000 and Cash from Customers is \$700,000, there will be a variance of \$100,000 (sales yet to be collected) with a red dot to indicate a negative variance. This explains that although the business has sold \$800,000, \$100,000 of those sales have not been collected yet and are included in Accounts Receivable.

The Expanded Section

The difference between Operating Cash Flow and Net Cash Flow can be seen by expanding the table by clicking on the Grey + sign next to Other Profit Items or Other Cash Outflow. This will show you where the money went i.e.:

- Interest Paid
- Tax Paid
- Extraordinary Income or Expenditure
- Dividends/Distributions
- Depreciation & Purchases or Sales of Fixed Assets
- Purchases or Sales of Other Assets or Liabilities
- Capital introduced or withdrawn

Tips:

- Operating Cash Profit is often known as EBITDA (Earnings Before Interest Tax, Depreciation and Amortisation)
- If a large variance between your Profit and your Cash Flow exists it is important to understand where the differences are occurring. A significant negative Operating Cash Flow is a major concern and cannot be sustainable in the long run.

Operating Cash Profit vs Operating Cash Flow

This graph compares your Operating Cash Profit to your Operating Cash Flow for up to the past 3 periods. The difference between the two columns is your investment in Working Capital. If Operating Cash Flow is negative, growth in Revenue will require additional funding.

Tips:

- Look for any obvious anomalies and check your loading
- Trends are more effective if more than 2 periods of data have been entered
- Go to Your power of One for ways to improve Operating Profit and Cash Flow

Funding Ratios

Your 9 key Chapter 4 ratios are shown here. The first column shows the prior period. The second column shows the current period. The third column shows the movement between prior and current with a green traffic light indicating if the movement is positive or a red traffic light indicating a negative.

All relevant calculations are period sensitive and have been annualised if any periods are not for 12 months. If current and prior periods are different lengths the movement column takes the relevant time periods into account.

Tip: Focus your attention on the red traffic lights and understand why you have negative variances.

Power of One

Your Power of One

Your Power of One shows the impact on your Cash Flow and Operating Profit of an improvement of 1% in the four drivers of Chapter 1 Profitability, as well as the impact on your Cash Flow of an improvement of 1 day in the three drivers of Chapter 2 Working Capital.

Your Power of One is your starting point in your journey to optimise your Company's Cash Flow Excellence by understanding the 1% or 1 day changes in your 7 key drivers. Marketing, Operations and Finance all need to understand the Power of One as they can directly influence these drivers. The Power of One also shows you the sensitivity of each key driver to Cash Flow and Operating Profit.

Your Power of One is an **indicative change** as it presumes that relationships between the numbers do not change.

Also note that any Power of One changes you make do not affect the numbers you loaded on the Setup page.

Your Power of One is for the current period of data. If the current period is less than 12 months the results have been annualised where appropriate to take the time period into account. For example, if you are viewing your Power of One for a quarter, the improvement to Cash Flow and Operating Profit are shown as an annual improvement.

Tips: Focus on:

- The effect that a 1% increase in Price will have compared to a 1% increase in Volume will have on both Cash Flow and Profit
- The effect that 1% reduction in Cost of Goods and Overheads will have on Cash Flow and Profit
- The effect that a 1 day reduction in Accounts Receivable or Inventory or a 1 day increase in Accounts Payable has on Cash Flow
- The relative sensitivity of all the 7 drivers
- Note with concern the situation where an increase in Volume causes Cash Flow to be reduced. Review Chapter 2 Working Capital closely to understand why this is happening

Your Power Of One Impact

This graph compares your existing Cash Flow and Operating Profit to the adjusted values after the total impact of your Power of One changes are taken into account.

Tips:

- Note with concern if your Power of One changes are improving Operating Profit but not Cash Flow

Business Value Indicator

Your Current Business Value Indicator

Your Business Value Indicator provides you with a simple methodology to have a discussion about Value. It is critical to remember that this is an **indicative valuation**, if you are buying or selling a business more information & more detail would need to be considered. The Summary screen contains 6 Boxes:

Targeted Business Value

For the purposes of driving value improvement, your Targeted Business Value should be set at a optimistic but realistic level of what you would like your business to be worth in the next 2 to 3 years. Even if you have no intention of selling your business, it is critical that you are increasing the value of your business each year. Click on the green pencil in the top right hand corner to edit the parameters. Enter your targeted Business Value.

Current Business Value

Your Current Business Value is calculated as Adjusted EBITDA multiplied by your Profit Multiple less Net Debt OR plus any Cash if the business has no Debt . Click on the green pencil in the top right hand corner to edit the parameters:

Weighted Average EBITDA	<p>Your Weighted Average EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for the past 3 periods has been calculated by CFS.</p> <p>EBITDA is Calculated as Operating Profit add back Depreciation and Amortisation you entered.</p> <p>Click on Help for more information on how the weightings are applied.</p>
Adjustments	<p>The adjustments input box enables you to 'normalise' the EBITDA. Examples of typical adjustments are:</p> <ul style="list-style-type: none"> • Owners or managers working in the business for a below market or no salary - adjust as if paying commercial salaries. • Owners or managers working in the business at excessive salaries - adjust as if paying commercial salaries. • Owners or managers putting material personal expenses through the business.
Net Debt	<p>The sum of external Current and Non Current Debt less any Cash. If the busienss has no Debt, Cash holdings are added to the Business Value.</p>
Profit Multiple	<p>The default Profit Multiple used in CFS is 4. You can enter any desired Multiple to 2 decimal places. Selling a business at 3 to 4 times profit is quite common, particularly good businesses. There are very common Profit Multiples used in some industries. Remember the Business Value Indicator is used to drive value improvement in your Business and measure the effectiveness of your Power of One strategies.</p>

Current Value Gap

Your Current Value Gap is the difference between your inputted Targeted Business Value and your calculated Current Business Value. If your Current Value Gap is a negative there will be a thin red line drawn on the bottom line of the box. There



will be a green line if the Value Gap is positive. If you are showing a positive Value Gap it is recommended that you increase your Targeted Value Gap as this assists in driving value improvement in your business.

Power of One Impact

This box shows you the impact that your Power of One changes can have on the value of your business. Click on the green Show Details box to see how each Power of One change impacts on your Business Value. If your Power of One changes in total are positive, it is known as your Power of One Value uplift. Often small changes to your Power of One, such as a 1% or 2% price increase, can create a significant value uplift.

Profit Impact on Valuation

Improvements in Price, Volume, Cost of Goods and Overheads will also improve your Business Valuation. Your four Power of One Profit Drivers are multiplied by your selected Profit Multiple to show the impact of your Power of One changes on your Business Value. Changes to your four Power of One Profit Drivers has a direct impact on your Operating Profit and your EBITDA and therefore the value of your Business.

Cash Impact on Valuation

Reductions in Inventory & Accounts Receivable days and increases in Accounts Payable days have a direct impact on your Cash Flow, either reducing your Debt or increasing your Cash holdings. This in turn increases the value of your Business.

You will note that the Cash Impact is not multiplied by your Profit Multiple.

Improved Business Value

Your Power of One impact is added to your Current Business Value to show your Improved Business Value. Note this valuation is using the same Profit Multiple that was used to calculate your Current Business value and your Power of One Value uplift.

Improved Value Gap

Your Improved value gap is your Targeted Business Value less Improved Business Value. It is also your Current Value Gap plus your Power of One impact.

The Graph shows the impact of your Power of One on your Current Business Value, you can clearly see the gap as the difference between the Target Value and your Improved Business Value.

You can click on the View detail button to show the detailed calculations of Your Business value

For a more detailed explanation of Your Business Value Indicator, click on the Help link.



Sustainable Growth

Your Sustainable Growth

The Sustainable Growth is designed to show whether your business can fund future Revenue growth. The concept is based on the initial presumption that all the relationships within your business remain exactly the same. If you were to sell \$100 of **additional** Revenue would your business be able to fund that growth?

In reality of course \$100 of additional Revenue would not result in the exact funding outcome as business is never that simple, but the concept of Sustainable Growth is very important to gain an understanding of whether your business is able to grow within its existing constraints.

If you are planning on increasing Revenue next year but are not showing available funding, it is very likely that Cash Flow problems can occur.

Your Sustainable Growth is assuming that \$100 of additional Revenue, will be at your existing Gross Margin, Operating Profit and Retained Profit. In addition the exact same Investment in Chapter 2 Working Capital is required.

The amount of Working Capital that is required is compared to your Retained Profits.

If you have retained sufficient Profits to fund your Working Capital requirements, the graphic will show the Cash Flow that will be generated from each additional \$100 of Revenue you make.

If you have not retained sufficient Profits to fund your Working Capital requirements, you may be able to fund your growth if you have borrowings. However Sustainable Growth only allows increasing borrowings to the extent of your existing Debt to Equity Ratio. If you are unable to fund your Working Capital requirements via borrowings, any shortfall will be shown in a red box.

This indicates that Revenue growth will require additional borrowings beyond your existing Debt to Equity relationship.

If you are unable to borrow sufficient funds to grow, you will need to determine strategies to reduce Working Capital and/or increase Profits. Click on the Edit inputs button, you can now determine if a Cash surplus can be generated by changing the inputs to the Profit or Working Capital numbers.