



Stress Testing your numbers Covid19

Alan Miltz

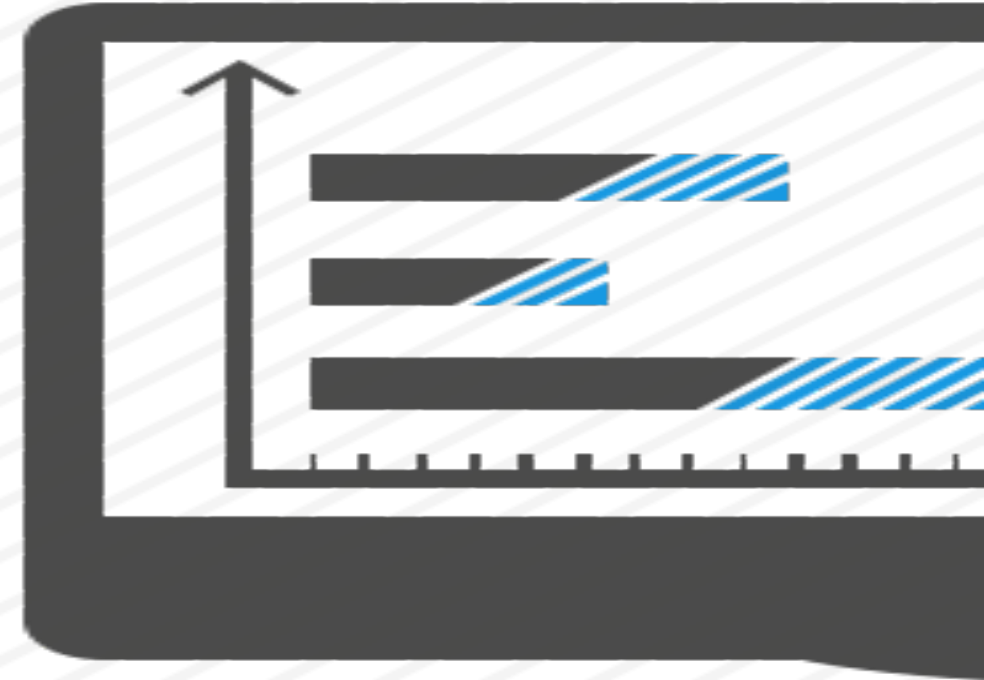
Co-Founder Cash Flow Story

Co-author Scaling Up

To access CASH FLOW STORY for 3 months at NO COST

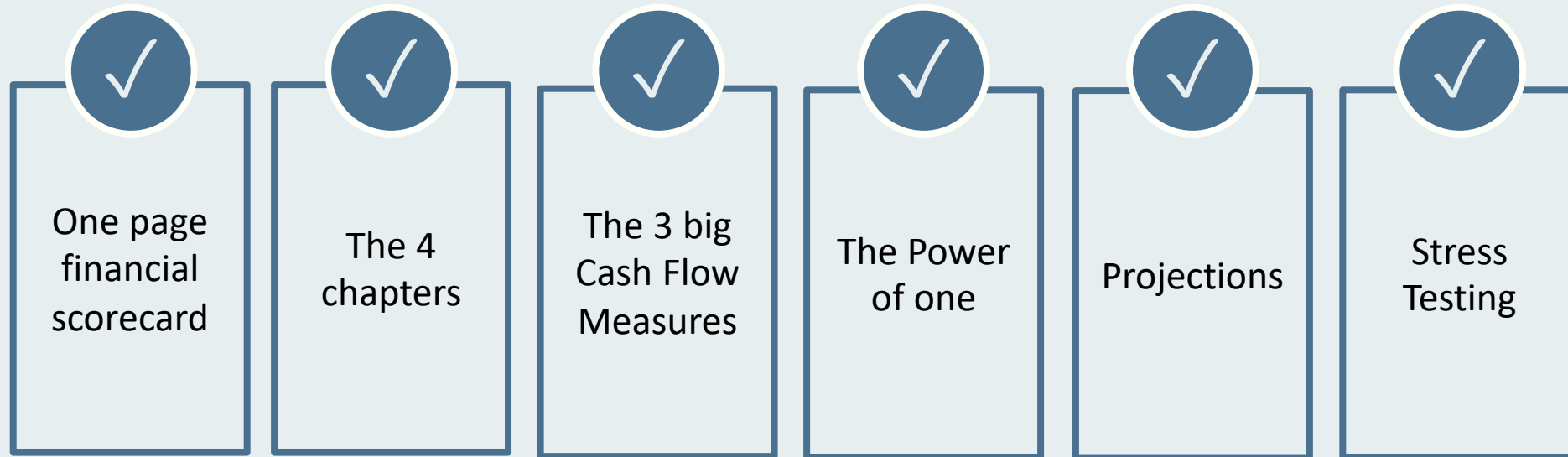
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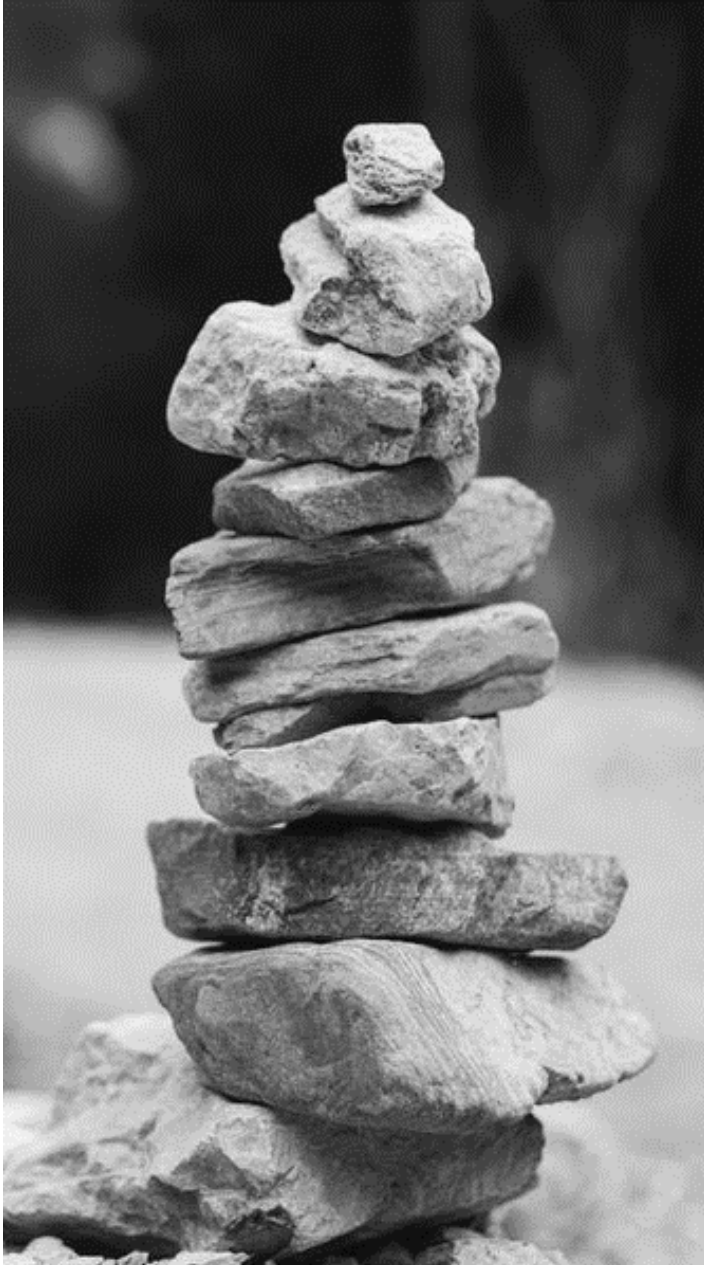
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running



WHAT YOU WILL LEARN

How to scale up Profit, Cash and Value



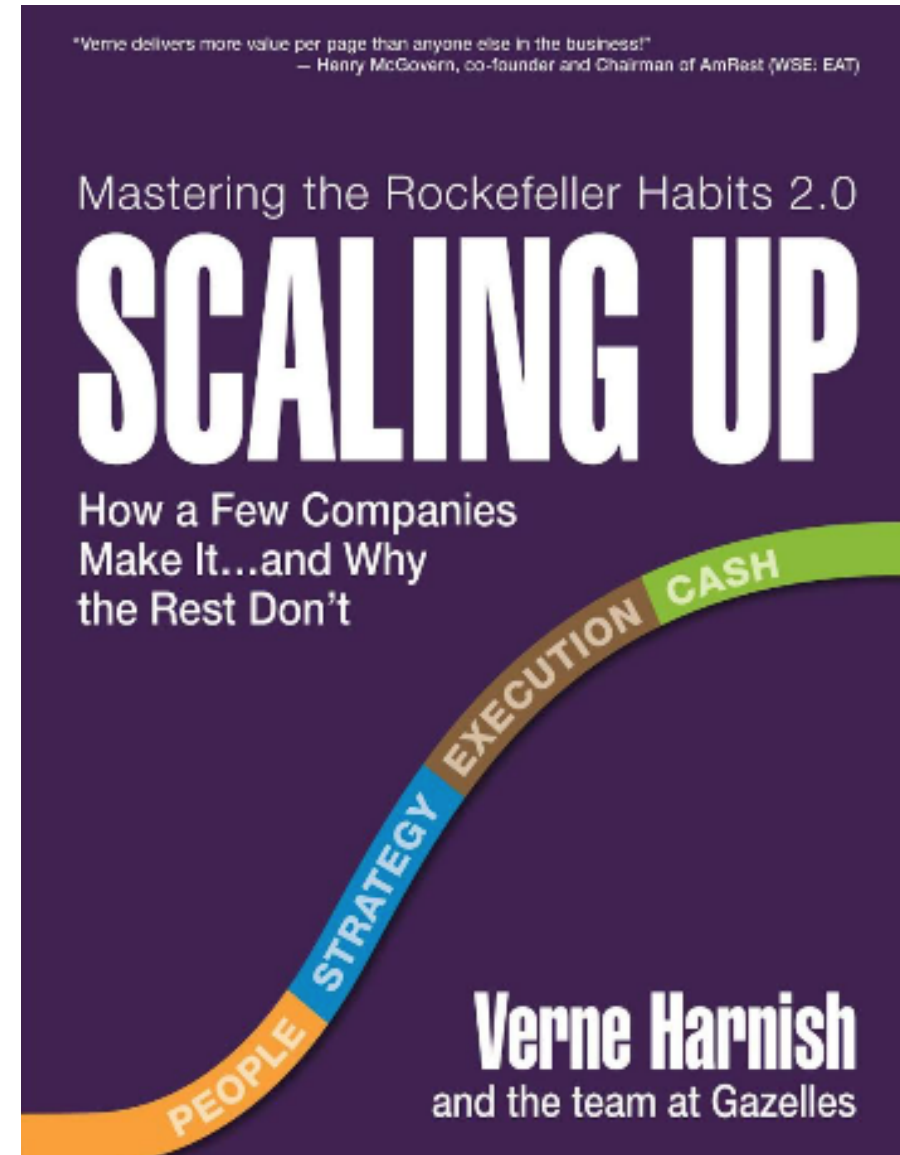


8 KEYS TO BUSINESS SUCCESS

- Two heads are better than one
- Everyone has the right to be heard in a non-threatening way
- The truth will be told
- Our word is our bond
- The needs of the customer come first
- There will be no surprises – put the uncomfortable issues on the table
- Promote teamwork and leadership
- Be proactive corporate citizens

THE 4 DECISIONS

In order for companies to grow effectively they need to have a focus on the 4 key decisions.



MEASURING THE 4 DECISIONS

Decision	Measurement
People	80% A Players, Happy, Challenged & Winning
Strategy	Growth in Revenue
Execution	Growth in Profit
Cash	Increasing Cash in the Bank

The focus of todays session is **CASH**.

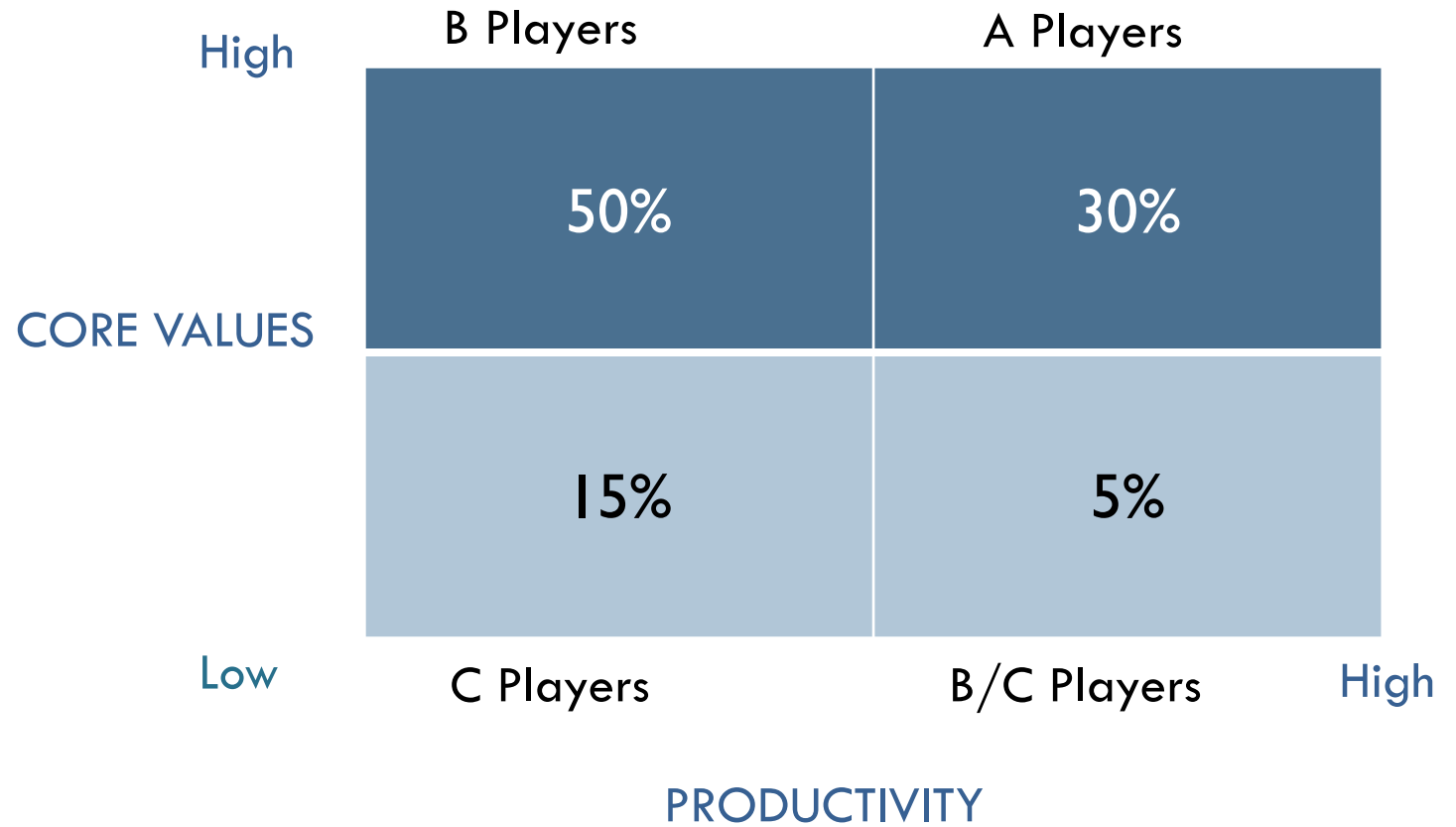
Cash is the result of making good decisions in People, Strategy & Execution.

PEOPLE

Does the Blue Group have the right people on the bus?
Are they sitting in the right seats?



PEOPLE REVIEW

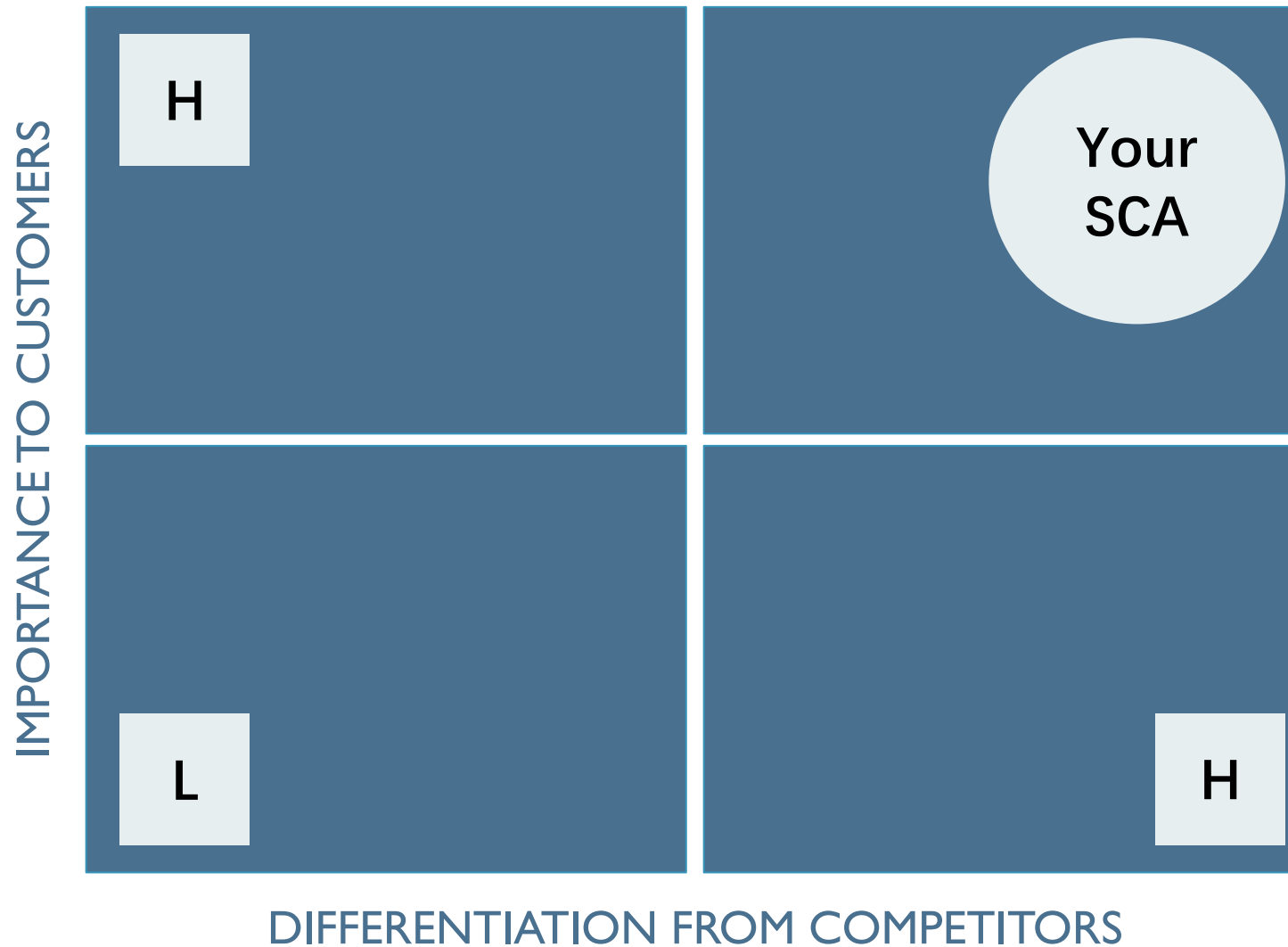


STRATEGY

What is Blue Group's strategy, that makes them important to their customers and different to their competitors?




SUSTAINABLE COMPETITIVE ADVANTAGE



SUSTAINABLE COMPETITIVE ADVANTAGE

Strategic Element	Example
Who is your Core Customer giving superior profits?	“Pat”
What is you uncommon offering	1. Get it right first time 2.All promises kept 3.The buck stops with us
How is your strategy to communicate your uncommon offering	
Own it	

EXAMPLE OF A CORE CUSTOMER




PAT

AGE:
25 - 40

WORK HOURS:
6am - 4pm

WHO IS PAT?

- Pat works for a civil engineering company as site manager.
- He often has a team of 10 or more but could be part of a 10-20 person camp.
- He says one thing he's concerned about is not in relation to the "big picture" of the project, and really doesn't want to be obscured by minor issues. For proportionate ground, or a middle term he needs, he wants to be able to easily refer to a supplier that he can rely on to supply his concrete order in a set way within the same timeframe every time.
- Pat will always say he is concerned about pricing before the project begins, but as the project progresses, shows him more value on the ability to supply and deliver quickly.
- Pat will not call a supplier's order until he gets a verbal or by email decision, information regarding when it is possible to start the work and understand what he needs and doesn't ask too many questions.



CONSIDER IT DONE.

EXECUTION

How many consecutive months has the Blue Group achieved their Revenue & Profit targets?

MILOK GROUP

- Milok Group was founded in 2010 by George Milok.
- The Company imports and distributes haircare products, supplying hairdressers, beauty salons and pharmacies.
- They employ 55 people.
- Milok Group was doing well until the Covid19 Virus impacted in March 2020.
- The Financials for the year ended December 2019 have yet to be impacted.

MILOK GROUP

Profit & Loss	2018	2019	Balance Sheet	2018	2019
Revenue	21,500,000	24,000,000	Cash at Bank	100,000	100,000
Gross Margin	7,800,000	9,000,000	Accounts Receivable	4,000,000	5,000,000
Overheads	5,920,000	6,700,000	Inventory	2,500,000	3,200,000
Operating Profit	1,880,000	2,300,000	Current Assets	6,600,000	8,300,000
Interest	800,000	100,000	Fixed Assets	3,000,000	3,000,000
Tax	600,000	700,000	Total Assets	9,600,000	11,300,000
Net Profit	1,200,000	1,500,000	Accounts Payable	3,000,000	3,500,000
Retained Profit	1,200,000	1,500,000	Short Term Debt	3,100,000	2,800,000
			Current Liabilities	6,100,000	6,300,000
			Long Term Debt	1,000,000	1,000,000
			Total Liabilities	7,100,000	7,300,000
			Equity	2,500,000	4,000,000

Milok GROUP

Profitability

12 months ending 31-12-2019

Revenue

24,000,000

↑ 2,500,000

Gross Margin

9,000,000

↑ 1,200,000

Operating Profit

2,300,000

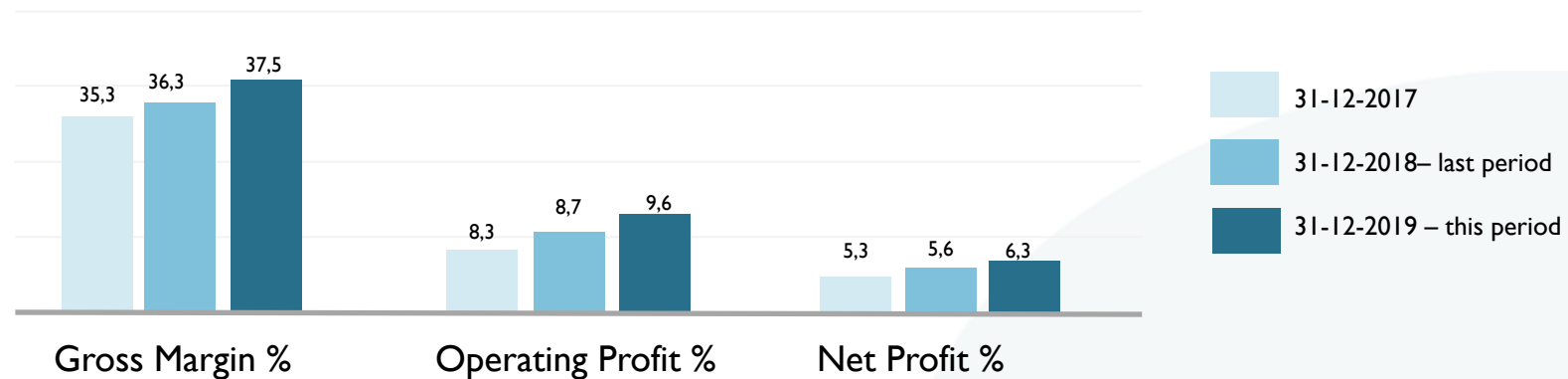
↑ 420,000

Retained Profit

1,500,000

↑ 300,000

Profitability Trends



It has never been more important to understand your numbers

It is vital that you and your whole management team understand your financial story in a consistent framework.

We are most likely to be in a situation where we need to make some tough decisions and to be able to communicate both internally and externally with no ambiguity.



CASH

Revenue is Vanity

Profit is Sanity

Cash is King

YOUR BIG 3 CASH FLOW MEASURES



Net Cash Flow

Operating Cash Flow

Marginal Cash Flow

BIG CASH FLOW MEASURE NUMBER ONE



Net Cash Flow

Operating Cash Flow

Marginal Cash Flow

NET CASH FLOW

- On the 1st January 2019 I have \$10,000 in the bank.
- On the 31st December 2019 I have \$1,000 in the bank.

My Net Cash Flow is Negative \$9,000

Why can't we apply this logic to our company even if it has multiple bank accounts?

MAKING YOUR FINANCIAL STATEMENTS SIMPLE

Your Income Statement and
Balance Sheet are equally
Important

Companies focus on their
Income Statement because its
easy to understand

Your Balance Sheet can be
made simple.

MILOK GROUP NET CASH FLOW

Opening Net Debt

Short Term Debt	3,100,000
Long Term Debt	1,000,000
Less Cash	-100,000

4,000,000

Closing Net Debt

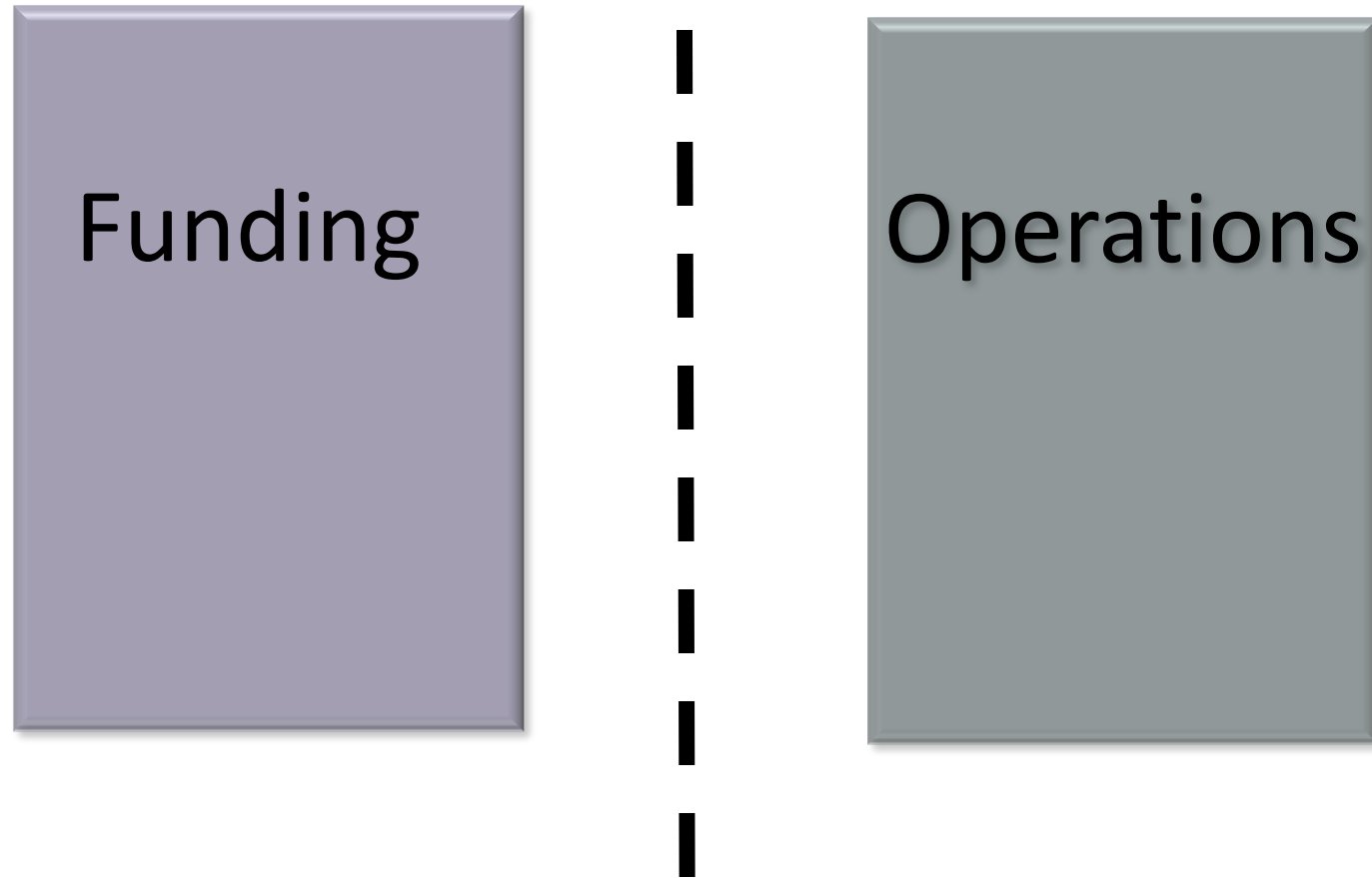
Short Term Debt	2,800,000
Long Term Debt	1,000,000
Less Cash	-100,000

3,700,000

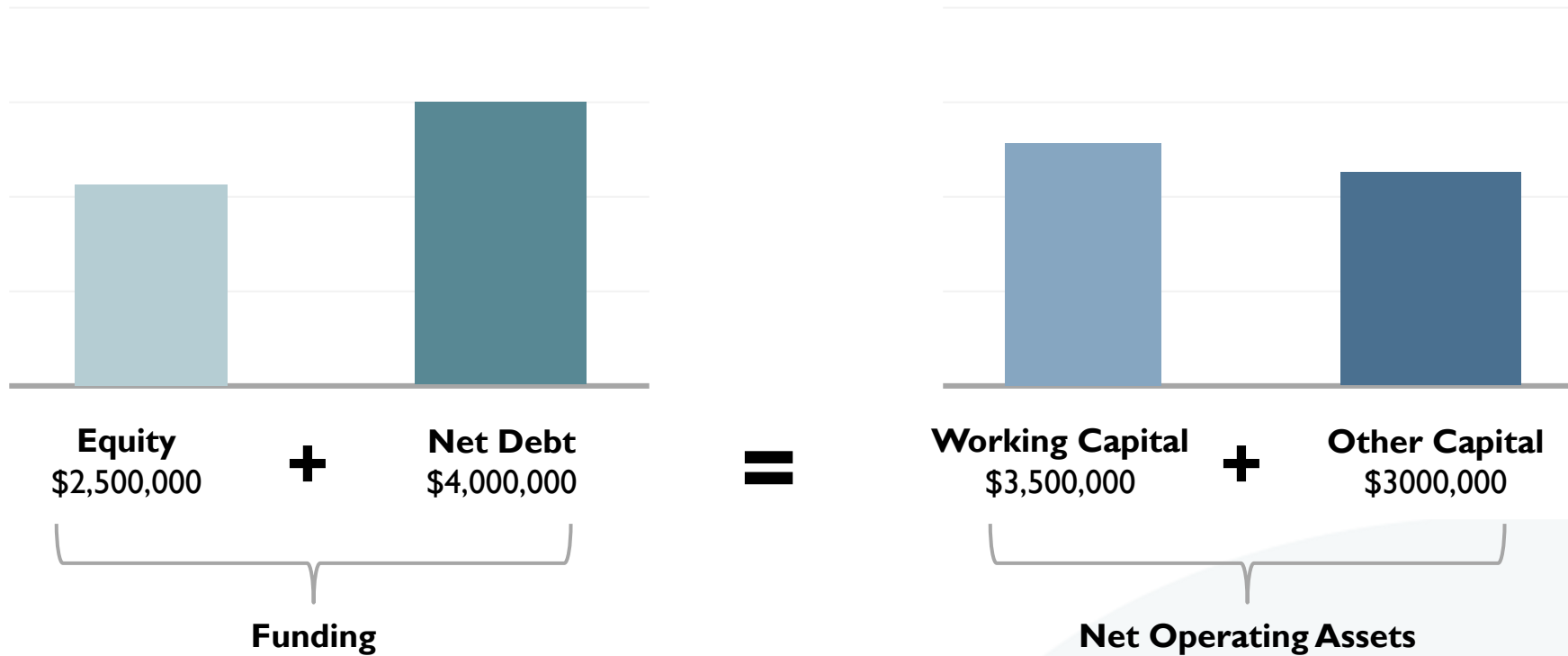
Net Cash Flow

+300,000

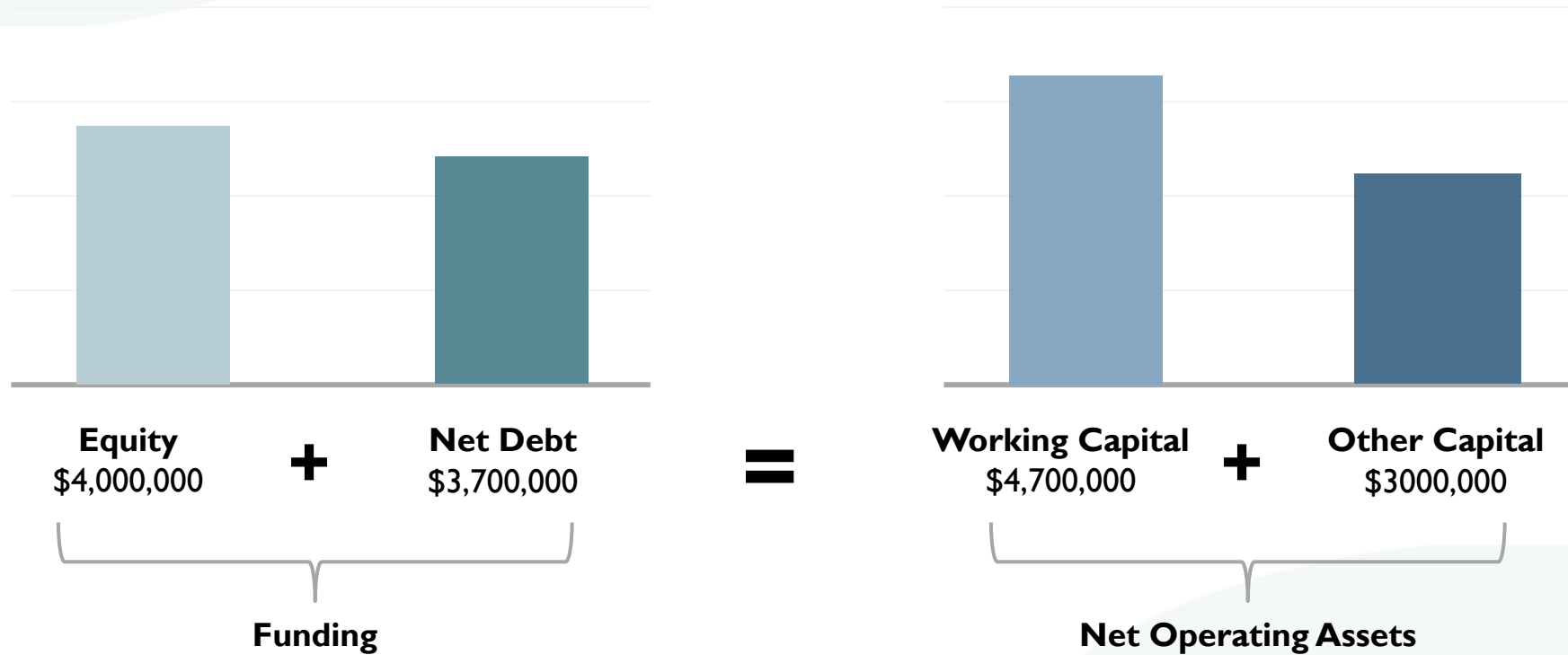
Your Balance Sheet in one sentence



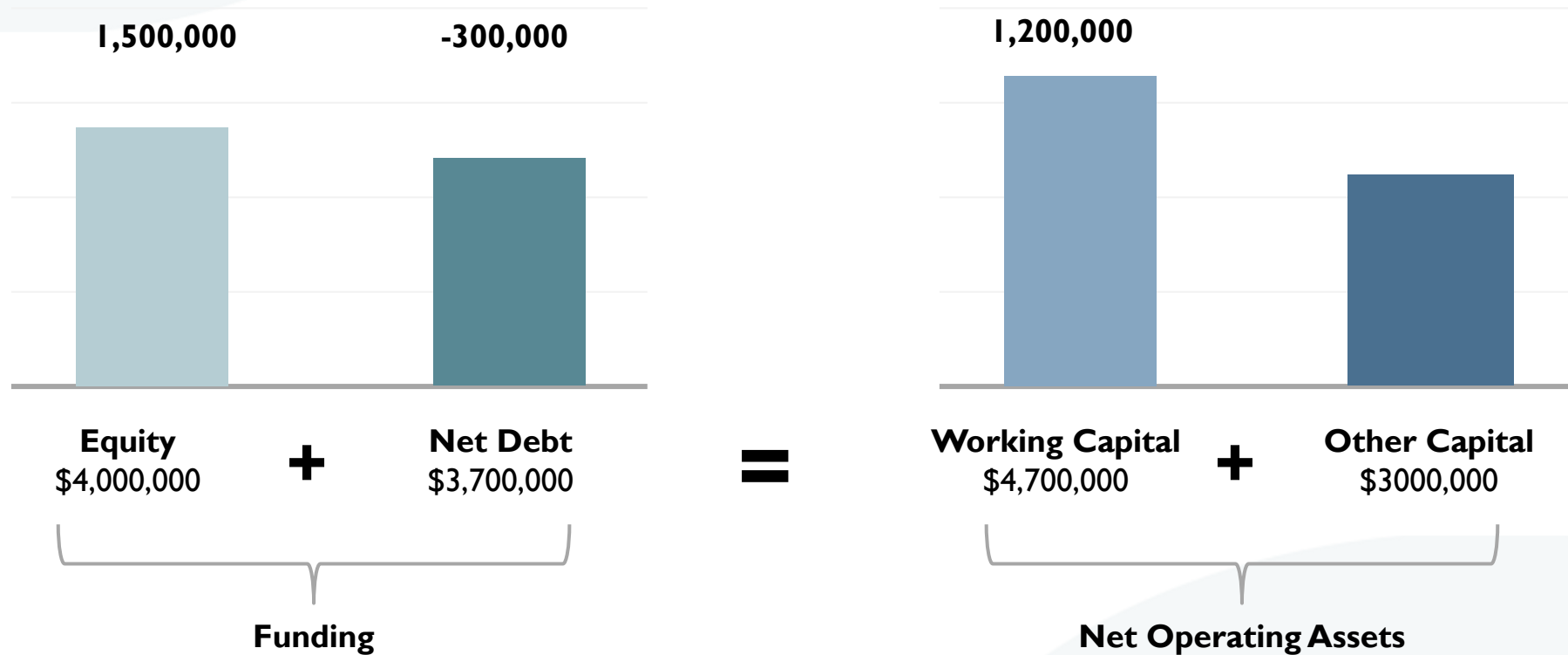
Milok GROUP BALANCE SHEET IN ONE SENTENCE LAST YEAR



BLUE GROUP BALANCE SHEET IN ONE SENTENCE THIS YEAR



THE ONE SENTENCE MOVEMENT



THE 4 CHAPTERS

Chapter 1 – Profitability

Chapter 2 - Working Capital

Chapter 3 - Other Capital

Chapter 4 - Funding

RECONCILIATION OF CASH USING THE 4 CHAPTERS

		+ Cash Flow	- Cash Flow
Chapter 1	Profit	1,500,000	
Chapter 2	Working Capital Invested		1,200,000
Chapter 3	Other Capital Invested		0
Total		1,500,000	1,200,000

Your business generated **\$300,000** of cash

MILOK GROUP STRENGTHS & WEAKNESSES

THE FOUR CHAPTERS

Chapter 1 - Profitability ✓

Chapter 2 - Working Capital ✗

Chapter 3 - Other Capital ?

Chapter 4 - Funding ✗

4 CHAPTER MANAGEMENT

Your Profitability and Balance Sheet management are equally important.

Milok Group have performed well in Chapter 1 Profitability metrics.

They have a lazy Balance Sheet due to poor Chapter 2 Working Capital Management.

This has resulted in Cash Flow wastage.

TODAYS WORLD

In all likelihood your business has been severely impacted by the Virus.

Your management team have a critical role to play in protecting the survival of the company.

THE WAR ROOM TEAM

Now more than ever everyone needs to understand your numbers



THE WAR ROOM TEAM

Your War Room team should include people from Sales & Marketing, Operations & Finance.

Your team needs to understand how they can impact Cash Flow.

Your team should meet weekly.

OPERATING CASH FLOW

- Operating Cash Flow is a critical measure for your management team.
- They are equally responsible for Chapter 1 Profit and Chapter 2 Working Capital.
- Milok like many companies has a blind spot. They focus on Profit and do not understand Cash.
- Operating Cash Flow is a simple measure to help bridge this gap.

Operating Cash Flow is a critical measure in times of crisis

- Milok grew their Revenue by 12%
- Operating Profit increased by 22% to \$2,300 million
- Milok had a positive Cash Flow of only \$300,000

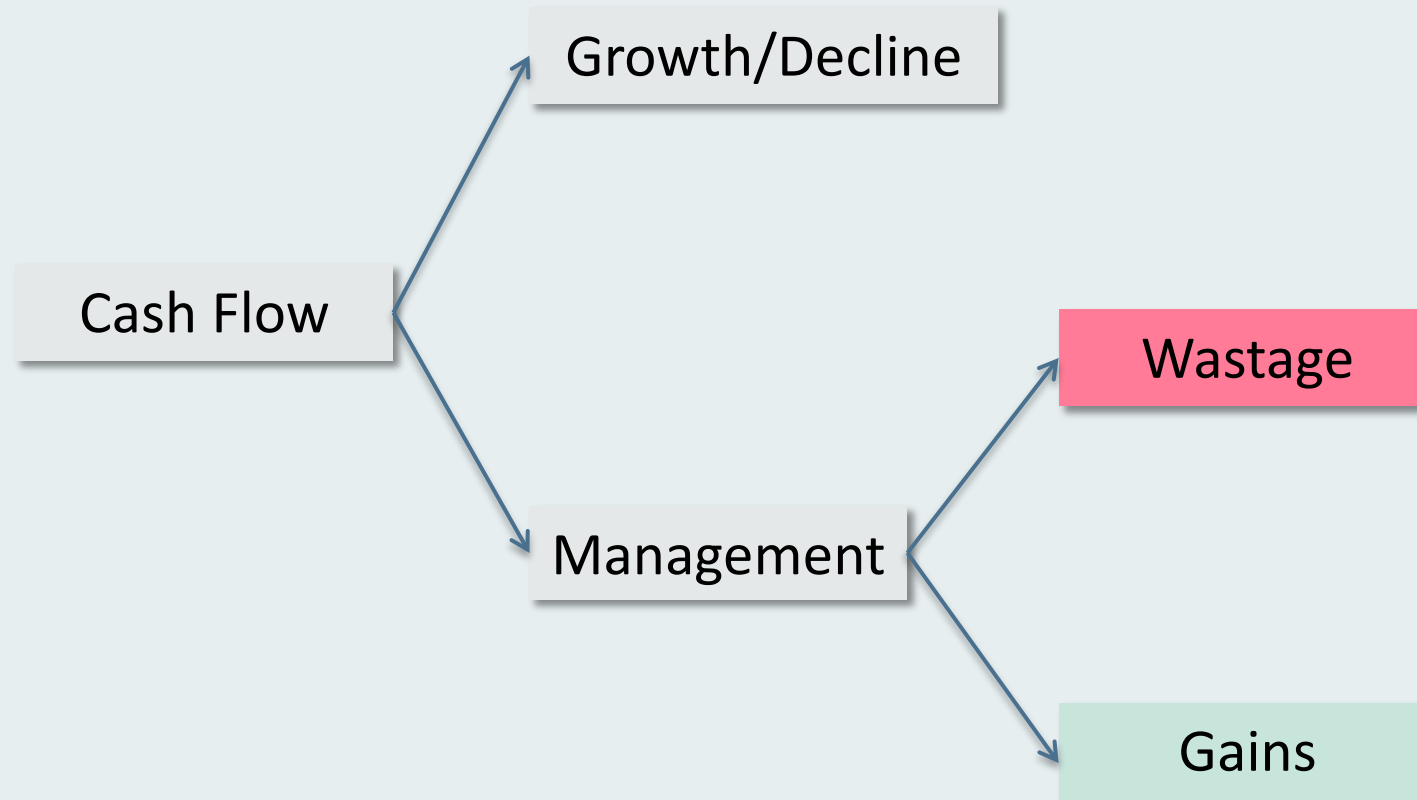
OPERATING CASH FLOW

Operating Cash Flow is your Operating Profit less changes in your Working Capital

Operating Profit		2,300,000
Less changes in Working Capital		
Receivables increase	1,000,000	
Inventory increase	700,000	
Payables increase	(500,000)	1,200,000
<hr/>		
Operating Cash Flow		1,100,000

Is this Good or Bad???

CASH FLOW QUALITY



WHAT CHANGED SINCE LAST YEAR?

	Changes
Revenue	+ 12%
Gross Margin	+ 0.75%
Overheads	+ 15%
Accounts Receivable	+8 Days
Inventory	+ 11 Days
Accounts Payable	+ 5 Days

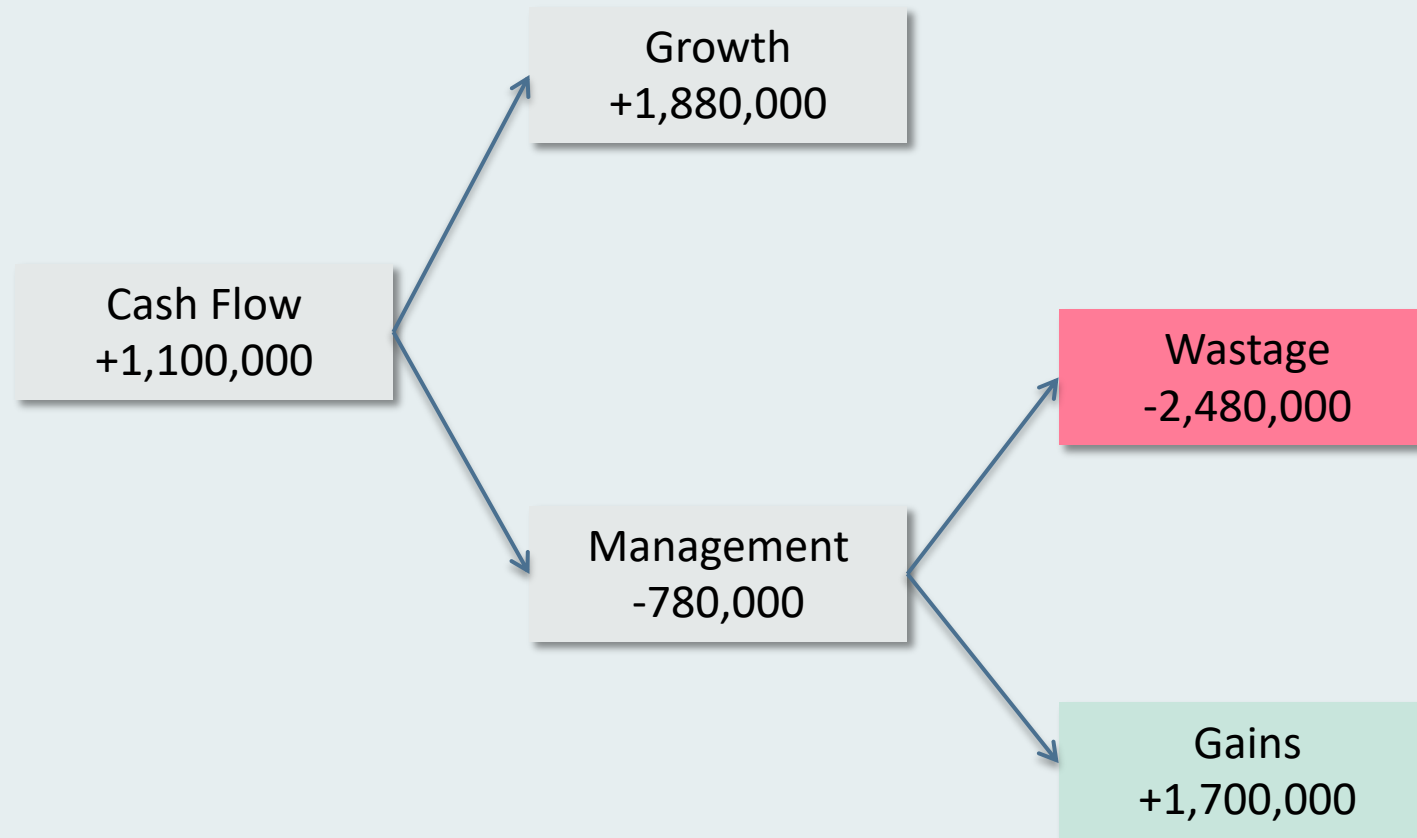
Milok Group's management team has made decisions that impact positively and negatively to Cash Flow.

CASH FLOW QUALITY OF MANAGEMENT

	Gains	Wastage
Gross Margin	1,200,000	
Overheads		780,000
Accounts Receivable		1,000,000
Inventory		700,000
Accounts Payable	500,000	
	1,700,000	2,480,000

Milok Group's management team has negatively impacted Cash Flow by **\$780,000**

MILOK GROUP CASH FLOW QUALITY



CASH FLOW QUALITY

Profitability	Ideal Profile	G	A	B
Sales	100			
GM %	40	>40	37-40	<37
OH %	28	<28	28-30	>30
EBIT %	12	>12	10-12	<10
Working Capital				
Receivable Days	60	<60	60-70	>70
Inventory Days	50	<50	50-60	>60
Payable Days	60	>60	45-60	<45

CASH FLOW QUALITY – Milok'S NUMBERS

Profitability	Ideal Profile	G	A	B
Sales	100			
GM %	40		37.5	
OH %	28		28	
EBIT %	12		9.5	
Working Capital				
Receivable Days	60			76
Inventory Days	50			78
Payable Days	60	85		

BIG CASH FLOW MEASURE NUMBER THREE



Net Cash Flow

Operating Cash Flow

Marginal Cash Flow

MARGINAL CASH FLOW

- Marginal Cash Flow is the additional cash that will be generated or used up if we sell \$1 more of our product or services.
- Most companies only look at their Gross Margin.
- You cannot grow without needing Chapter 2 Working Capital.
- Marginal Cash Flow takes both Gross Margin and Working Capital into account

MARGINAL CASH FLOW FOR THE NEXT \$1 OF SALES

Inventory \$3,200,000	+	Receivables \$5,000,000	-	Payables \$3,500,000	=	Working Capital	20
						Inventory	13
						Receivables	22
						Payables	15
		Revenue \$24,000,000					

For each additional \$100 of Revenue you invest \$20 in Working Capital

MARGINAL CASH FLOW

- For every additional \$1 of Revenue Milok will invest 20 cents in Working Capital to generate 38 cents of Gross Margin.
- As Milok grows they will generate 18 cents of Marginal Cash Flow.
- Most Companies would focus on the 38 cents Gross Margin.
- Remember when business picks up after this crisis, you need to budget for 18 cents of Working Capital for each \$1 of growth.

THE POWER OF ONE

The Power of One is the Code of your Business.
It will improve Profit, Cash Flow and Value

THE POWER OF ONE - SENSITIVITY

Your 7 levers to improve Profit, Cash Flow and Business Value:

- Price %
- Volume %
- COGS/Direct Costs %
- Overheads %
- Accounts Receivable
- Inventory/WIP
- Accounts Payable

MILOK'S THE POWER OF ONE

Your Power of One	-	1.0	+		Impact on Cash Flow	Impact on Operating Profit
Price Increase %	-	1.0	+	%	190,000	240,000
Volume Increase %	-	1.0	+	%	43,000	90,000
COGS Reduction	-	1.0	+	%	147,000	150,000
Overheads Reduction	-	1.0	+	%	67,000	67,000
Reduction in Accounts Receivable Days	-	1.0	+	days	65,753	
Reduction in Inventory Days	-	1.0	+	days	41,096	
Increase in Accounts Payable Days	-	1.0	+	days	41,096	
Your Power of One Impact					↑ 594,945	↑ 547,000

THE POWER OF ONE – MILOK'S STRATEGY

Your Power of One	- 0.0 +		Impact on Cash Flow	Impact on Operating Profit
Price Increase %	- 2.0 +	%	380,000	480,000
Volume Increase %	- 0.0 +	%	0	0
COGS Reduction	- 0.0 +	%	0	0
Overheads Reduction	- 0.0 +	%	0	0
Reduction in Accounts Receivable Days	- 7.0 +	days	460,274	
Reduction in Inventory Days	- 0.0 +	days	0	
Increase in Accounts Payable Days	- 0.0 +	days	0	
Your Power of One Impact			↑840,274	↑ 480,000

WORKING CAPITAL TIMELINE

Milok has had 14 Power of One changes in its Working Capital Management

Working Capital Timeline

12 months ending 31-12-2019

This Period



69
Working Capital Days

Last Period



55
Working Capital Days

-782,329
Cash Impact

WORKSHOPPING THE POWER OF ONE



CASH HAS NEVER BEEN MORE IMPORTANT

Assumptions of the past no longer apply today
for many businesses

Milok's March 2020 quarter was only slightly
impacted

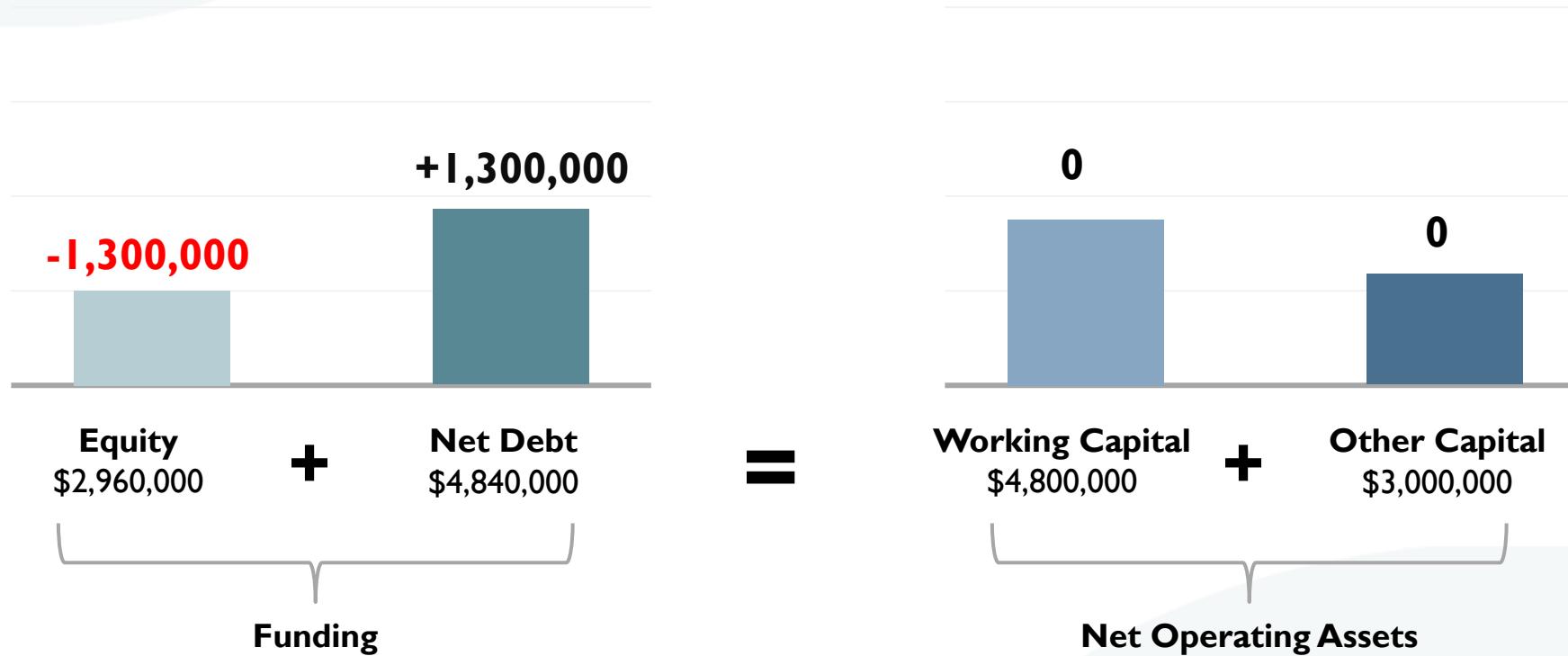
The company prepared a realistic forecast for the
June 2020 quarter

MILOK GROUP – 2020

Profit & Loss	March	June	Balance Sheet	March	June
Revenue	4,600,000	785,000	Cash at Bank	100,000	0
Gross Margin	2,000,000	320,000	Accounts Receivable	4,800,000	4,600,000
Overheads	1,715,000	1,585,000	Inventory	3,100,000	2,800,000
Operating Profit	285,000	-1,265,000	Current Assets	8,000,000	7,400,000
Interest	25,000	35,000	Fixed Assets	3,000,000	3,000,000
Net Profit	260,000	-1,300,000	Total Assets	11,000,000	10,400,000
			Accounts Payable	3,100,000	2,600,000
			Short Term Debt	2,640,000	3,840,000
			Current Liabilities	5,740,000	6,440,000
			Long Term Debt	1,000,000	1,000,000
			Total Liabilities	6,740,000	7,440,000
			Equity	4,260,000	2,960,000

THE ONE SENTENCE MOVEMENT

March 2020 vs June 2020



YOUR BANK AS A PARTNER

In these times, your bank has never been more critical to your business

Milok's Bank is prepared to provide \$1 million of funding not the projected \$1.3 million

Milok will use the Power of One to see how they can meet this challenge

MILOK GROUP POWER OF ONE

Your Power of One	- 0.0 +		Impact on Cash Flow	Impact on Operating Profit
Price Increase %	- 0.0 +	%	0	0
Volume Increase %	- 0.0 +	%	0	0
COGS Reduction	- 0.0 +	%	0	0
Overheads Reduction	- 20.0 +	%	317,000	317,000
Reduction in Accounts Receivable Days	- 0.0 +	days	0	
Reduction in Inventory Days	- 0.0 +	days	0	
Increase in Accounts Payable Days	- 20.0 +	days	101,918	
Your Power of One Impact			↑418,918	↑ 317,000

YOUR BANK AS A PARTNER



Play out the
likely
scenario for
the bank



Amend your
forecasts



How long can
you endure a
subdued
performance?



Reiterate how
good the
world will be
once this is
over

CALL TO ACTION

Step 1 – Sign up for your 3 months free licence for Cash Flow Story at www.cashflowstory.com/stresstest

Step 2 – Run a quick Stress test on your 6 numbers, ideally based on the next 3 months projected.

Step 3 – Create a 2 quarter historical scorecard, to gain a perspective of where your business is at. Look at your:

- Profit
- Working Capital
- Cash Flow
- Power of One

Step 4 – Project forward for the next quarter – the most likely scenario:

- Understand your Profit, working Capital & Cash Flow
- Perform Power of One to determine changes required to achieved desired Cash Flow

Step 5 – Repeat the projection for best and for worst case