



MAINE SMALL BUSINESS
DEVELOPMENT CENTERS

Knowing When to Hold 'em... & When to Fold 'em

Presented by: Raynor Large

Center Director

Maine SBDC at CEI



Funded in part through a cooperative agreement with the U.S. Small Business Administration

Thank you

- I am **not** an attorney, and any information provided in this presentation is generic and nature and should not be construed as legal advice. If you are considering bankruptcy, your next call should be with an attorney that has experience in that field.
- Please mute your connections if you are not asking a question.
- We invite questions throughout the presentation or in the comments; I might not see the question until the end, but I'll do my best to monitor the chat and answer questions as they pop up.

A bit about me -

- Came up through a real estate-adjacent tech firm through the housing crash in 2009
 - Cut workforce by 50%, right-sized, became more profitable than ever
- Worked with a turnaround firm here in Maine
 - Bankruptcy, liquidation, turnaround, merger / acquisition, explosive growth
 - Dependent on predictive financial models & ability to support debt
- Business Brokerage, credentialed valuations
 - Risk-based analysis of future cash flows
- SBDC Business Advisor



Defining the Breaking Point -

- **Your** breaking point – a deeply personal determination
 - Available time
 - Available energy
 - External factors – health, family, other commitments
- **The business** breaking point – a purely financial determination
 - Does the business have the cash available to meet its obligations?
 - If not, can it reach that point? How long will it take? How much money will it take? And, how can I confidently move forward?

Why Bother with Financials?

*(Isn't this what I pay a bookkeeper
for?)*

The Financial Model is the Language of Professionals

Lenders	Are you going to bootstrap every phase?
Investors	Will you ever take on a partner?
Brokers	Do you ever plan on selling or exiting?
Taxes	Do you understand how to control your tax burden?

You can intuit your way through business – but you can't convey that intuition to anyone else!

Why Bother with Financials?

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The Financial Model is the Unifying Theory Behind *all* Business Decisions

Human Resources	When can you afford to hire someone? Should you Automate instead?
Marketing	Where is your marketing efforts best spent? Should you re-invest in BNI, switch to Social Media...?
Growth	Is it better to invest in Product B. or offer Service C? Better to add a 2nd location or buy a competitor?
Capital Expense	Better to buy used or new? How long before it can pay for itself?

Every decision you make has a *cost* and an *intended outcome*.

Everything you're doing in your business is used to justify this model.

Why Bother with Financials?

*(Isn't this what I pay a bookkeeper
for?)*

**Doing everything you want to do with your business depends on the
business being & remaining financially viable.**

What ARE the Financial Statements?



1: **The Income Statement:** What is your Business **Doing**?



2: **The Balance Sheet:**
What **Is** your business?



3: **The Cash Flow Statement:** ...What's it mean to my Bank Account?

Income Statement (Profit & Loss)

- Three Parts:
 - Revenue
 - Cost of Goods
 - Overhead / fixed

Revenue – COGs – Overhead = Net Income

	Jan
TOTAL SALES	
Ice Cream	12,500
Hot Dogs	3,130
	15,630
Cost of Goods Sold	
Ingredients	4,580
Direct Labor	4,100
TOTAL COGs	8,680
GROSS PROFIT	6,950
Overhead	
Advertising	300
Admin Payroll	3,800
Rent	3,000
Interest	190
Utilities	800
Insurance	1,000
Vehicle	300
TOTAL OVERHEAD	9,390
NET INCOME	(2,440)

Revenue? (Sales!)

(Price per Item / Service) x (Number Sold in Period)

		20XX		%
		How many do I expect to Sell?		Revenue
TOTAL SALES	Price	50,000		Ice Cream Count
		25,000		Hot Dog Count
Price per Ice Cream	\$ 4.50	225,000	80.0%	Ice Cream Sales
Price per Hot Dog	\$ 2.25	56,280	20.0%	Hot Dog Sales
		281,280	100.0%	

Cost of Goods?

Direct Labor & Ingredients to create product

			20XX		% Revenue	
How many do I expect to Sell?						
			50,000			<i>Ice Cream Count</i>
			25,000			<i>Hot Dog Count</i>
TOTAL SALES	Price					
Price per Ice Cream	\$ 4.50		225,000	80.0%		<i>Ice Cream Sales</i>
Price per Hot Dog	\$ 2.25		56,280	20.0%		<i>Hot Dog Sales</i>
			281,280	100.0%		
Cost of Goods Sold	Ice Cream	Hot Dogs				
Cost of Ingredients	\$ 1.25	\$ 0.80	82,500	29.3%		<i>Ingredients Cost</i>
Cost of Labor	\$ 1.10	\$ 0.75	73,740	26.2%		<i>Labor Cost</i>
TOTAL COGs	52.2%	68.9%	156,240	55.5%		<i>COGs Margin</i>

Revenue – COGs = Gross Profit

“Gross Profit” is a measure of the value you’re adding

Adding a lot of value to raw ingredients = *High Margin*

Tweaking or small improvements = *Low Margin*

% Revenue = how much of every dollar you sell do you get to “keep”?

			20XX		% Revenue	
			How many do I expect to Sell?			
			50,000			Ice Cream Count
			25,000			Hot Dog Count
TOTAL SALES			Price			
Price per Ice Cream	\$	4.50	225,000		80.0%	Ice Cream Sales
Price per Hot Dog	\$	2.25	56,280		20.0%	Hot Dog Sales
			281,280		100.0%	
Cost of Goods Sold			Ice Cream			
Cost of Ingredients	\$	1.25	82,500		29.3%	Ingredients Cost
Cost of Labor	\$	1.10	73,740		26.2%	Labor Cost
TOTAL COGs			156,240		55.5%	COGs Margin
GROSS PROFIT			125,040		44.5%	Gross Profit Margin

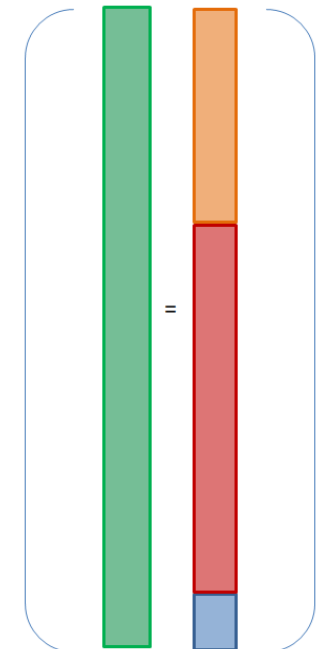
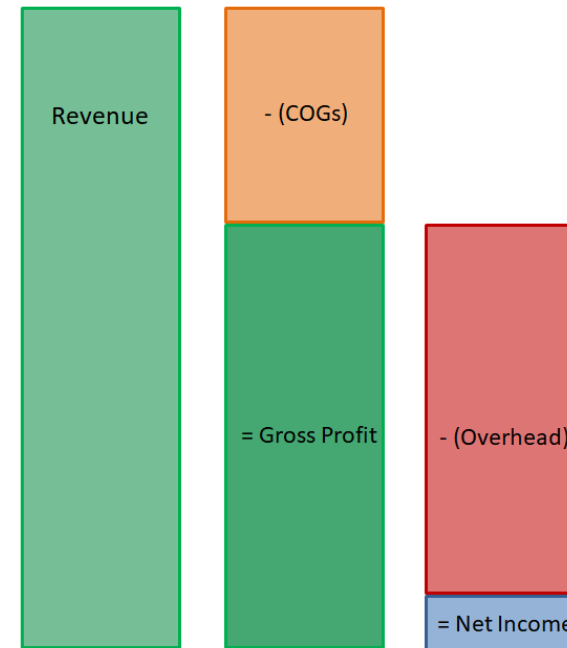
Overhead / Fixed costs

Set **Operational** costs that don't change with number of sales (too much)

Overhead			
Advertising	\$ 5,000		5,400
Admin Payroll	\$ 40,000		39,600
Rent	\$ 30,000		30,000
Interest			1,210
Utilities	\$ 15,000		15,000
Insurance	\$ 12,000		12,000
Vehicle	\$ 6,000		6,000
TOTAL OVERHEAD			109,210

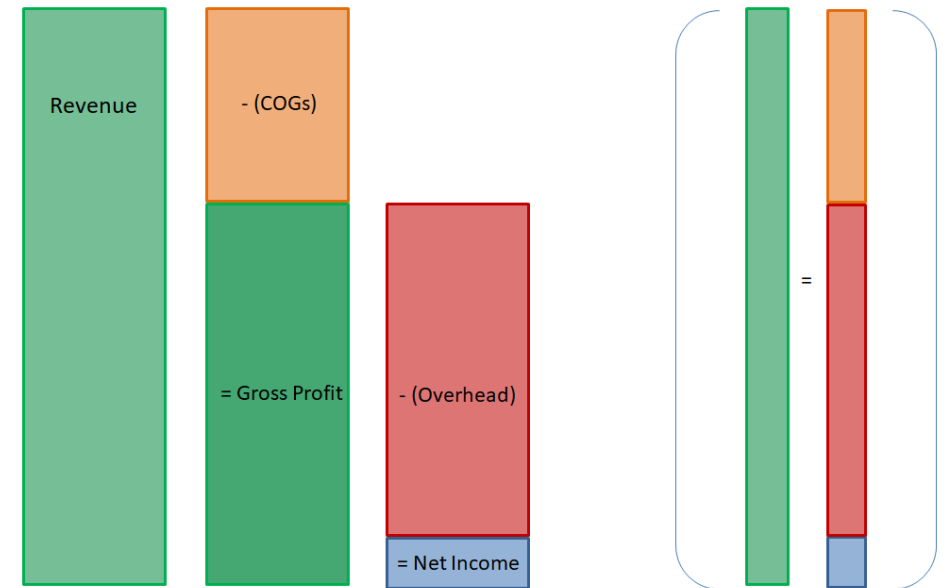
Income Statement (Profit & Loss)

			20XX	% Revenue
How many do I expect to Sell?			50,000	
			25,000	
TOTAL SALES	Price			
Price per Ice Cream	\$ 4.50		225,000	80.0%
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TOTAL COGs	52.2%	68.9%	156,240	55.5%
GROSS PROFIT			125,040	44.5%
Overhead				
Advertising	\$ 5,000		5,400	1.9%
Admin Payroll	\$ 40,000		39,600	14.1%
Rent	\$ 30,000		30,000	10.7%
Interest			1,210	0.4%
Utilities	\$ 15,000		15,000	5.3%
Insurance	\$ 12,000		12,000	4.3%
Vehicle	\$ 6,000		6,000	2.1%
TOTAL OVERHEAD			109,210	38.8%
NET INCOME			15,830	5.6%



Income Statement

- Your business has one goal:
 - *You need to Sell enough (**more Green**)*
 - *at a high enough Margin (**less Yellow**)*
 - *that Gross Profit meets or exceeds Overhead (**less Red & Maximum Blue!**)*



How do you hold yourself accountable as an Owner?

How do you measure the intended outcomes of your choices?

By removing non-operating costs and revenue, now we can compare:

- ***Performance against Projections***
- ***Performance against Prior Year***



The Balance Sheet

What IS your business?

- Assets
- Liabilities
- Equity
 - (Equity = Assets – Liabilities)
- At a *specific point in time*

BALANCE SHEET

Assets	
Cash	17,152
Inventory	5,000
Equipment	50,000
Total ASSETS	72,152
Liabilities	
Loan 1	39,322
Loan 2	-
TOTAL LIABILITIES	39,322
Equity	
Initial Investment	25,000
Retained Earnings	7,830
TOTAL EQUITY	32,830

Tie out: (A - L - E)

The Net Income is Used to Fund the BS

- Can *increase* Assets
 - Let cash accumulate
 - Buy new equipment
 - Buy real estate
- Can *reduce* Liabilities
 - This is what a bank wants to see – their Debt Coverage Ratio requirement
- Can *pay out to* Equity
 - Every owner's dream (but last in order for a reason)

The Cash Flow

Nothing new – combines the other two – ***But shows rolling cash position.***

Cash Flow from Operations													
Net Income	(2,440)	(2,430)	(2,430)	2,910	2,920	2,920	2,920	2,930	2,930	(2,400)	(2,400)	(2,400)	3,030
Changes to Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Changes from Operations	(2,440)	(2,430)	(2,430)	2,910	2,920	2,920	2,920	2,930	2,930	(2,400)	(2,400)	(2,400)	3,030
Cash Flow from Investing													
Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Changes from Investing	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow from Financing													
Loan 1	(989)	(993)	(996)	(1,000)	(1,004)	(1,008)	(1,011)	(1,015)	(1,019)	(1,023)	(1,027)	(1,031)	(12,116)
Loan 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow from Investing	(989)	(993)	(996)	(1,000)	(1,004)	(1,008)	(1,011)	(1,015)	(1,019)	(1,023)	(1,027)	(1,031)	(12,116)
Net Cash Flow	(3,429)	(3,423)	(3,426)	1,910	1,916	1,912	1,909	1,915	1,911	(3,423)	(3,427)	(3,431)	(9,086)
Starting Cash	20,311	16,882	13,459	10,033	11,943	13,859	15,771	17,679	19,594	21,505	18,082	14,655	20,311
Ending Cash	16,882	13,459	10,033	11,943	13,859	15,771	17,679	19,594	21,505	18,082	14,655	11,225	11,225

Projection Types

Type	Description	Example	Reliability
Documented	Set in a document or contract	Rent, Insurance	High
Historical	Based on historic average or trend	Utilities, Office Supplies	Moderate
Relative	Linked to other critical assumptions	COGs, Payroll Taxes	Moderate
Zero-Based	Guessing from scratch	New Revenue Lines	Low

Projections: Using Them Properly

Put together 12-month projections for your Income Statement

- Understand your Net Income needed for Break-Even and to cover Balance Sheet obligations

Projections: Using Them Properly

Test against performance for 3 months

- What'd you get right?
- What'd you miss?
- Change assumptions to match performance

Projections: Using Them Properly

Now you have a realistic map forward in continuing business as usual

- Does this work? Is this enough?
- What changes can you **actively implement** to change the outcome?

Which Brings us to: When to Hold 'em!

- A plan to positive Net Income...
- ...Strong enough to support debt (first), replacement of equipment (second), and your equity needs (sorry, third)
- & Starting Cash position to get there – personal, investor, other

What if My Projections Don't Work?

Income Statement solutions:

- **Increase revenue:** improve marketing, find a new audience, change or add a product, increase pricing!
- **Control COGs:** can you improve your margin? Bulk ordering, reduce waste, etc.
- **Reduce overhead:** price your insurance, re-negotiate lease (particularly if your workforce has shifted to WFH), take a look at each cost year-over-year and see what's moving up.

What if my Projections Work, but my Cash Flow doesn't?

Balance Sheet Solutions:

- Liquidate old inventory / unused equipment?
- Change your terms – collect AR, see if you can extend your AP
- Pay down / reduce use of higher-interest debt – LOC, credit card, etc.
- Re-negotiate debt? Longer term length, period of interest-only, lower interest? Can you term out your LOC? Does it make sense to do so?



...and When to Fold 'em

- Negative EBITDA / Net Income
- No plan in place
- Borrowing to pay debt

The three nails in the coffin for Bankruptcy / Liquidation:

- Using Credit Cards / direct draw loans
- Borrowing from your 401(k)
- Not paying quarterly taxes / not paying Payroll Taxes

Deep Dive into Projections

- [Register here](#)

Meet The Advisor

Raynor Large



Certified Business Advisor since 2019

Territory: Kennebec, Lincoln & Sagadahoc Counties

Contact Information:  raynor.large@ceimaine.org

 207-504-5886

