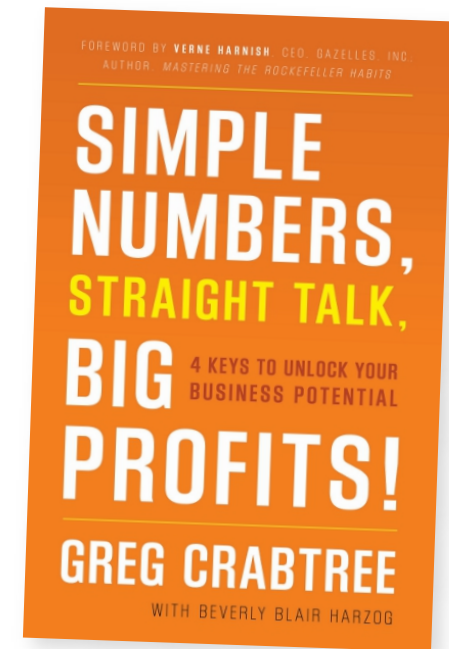


# Simple **Numbers**:

Rules for Surviving and Thriving in a Crisis  
Developing a Plan on Funding Needs

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# What Do We Do Now?

Create a 90  
Day Plan

- Forecast through the initial 90 days of uncertainty

Create a 180  
Day Plan

- Will consumers immediately return after 90 days? Or slowly scale up?

EVALUATE

- Evaluate cash required. Is it readily available? Will we need to borrow? Is it worth it?

# Art of Forecasting in Crisis

Plan out monthly gross margin first



```
graph TD; A[Plan out monthly gross margin first] --> B[Look a non-labor expenses second to see what can be turned off or delayed]; B --> C[Look a direct labor to what is needed to operate]; C --> D[Look at management labor last]; D --> E[Evaluate resources and runway consider cash, access to debt or disaster loan assistance and then decide if you can support more labor at full or reduce pay or if you have to cut faster.];
```

Look a non-labor expenses second to see what can be turned off or delayed

Look a direct labor to what is needed to operate

Look at management labor last

Evaluate resources and runway consider cash, access to debt or disaster loan assistance and then decide if you can support more labor at full or reduce pay or if you have to cut faster.

# Profit is Different than Cash Flow

- Every business model has a distinct profit and cash flow signature
- In a time of crisis, you need a keen understanding of when profit turns into cash
- Expect disruption of normal terms
  - You will get paid slower
  - You may have to pay faster
- If you carry Accounts Receivable or Inventory, it will be easier to get loan assistance than a business that does not have those.
- Let's look at 3 examples

# 3 Primary Business Models

Do Stuff (Services)

Sell Stuff (Product Sales)

Make Stuff (Manufacturing)

All other models are hybrids  
mixing 2 or more of these.

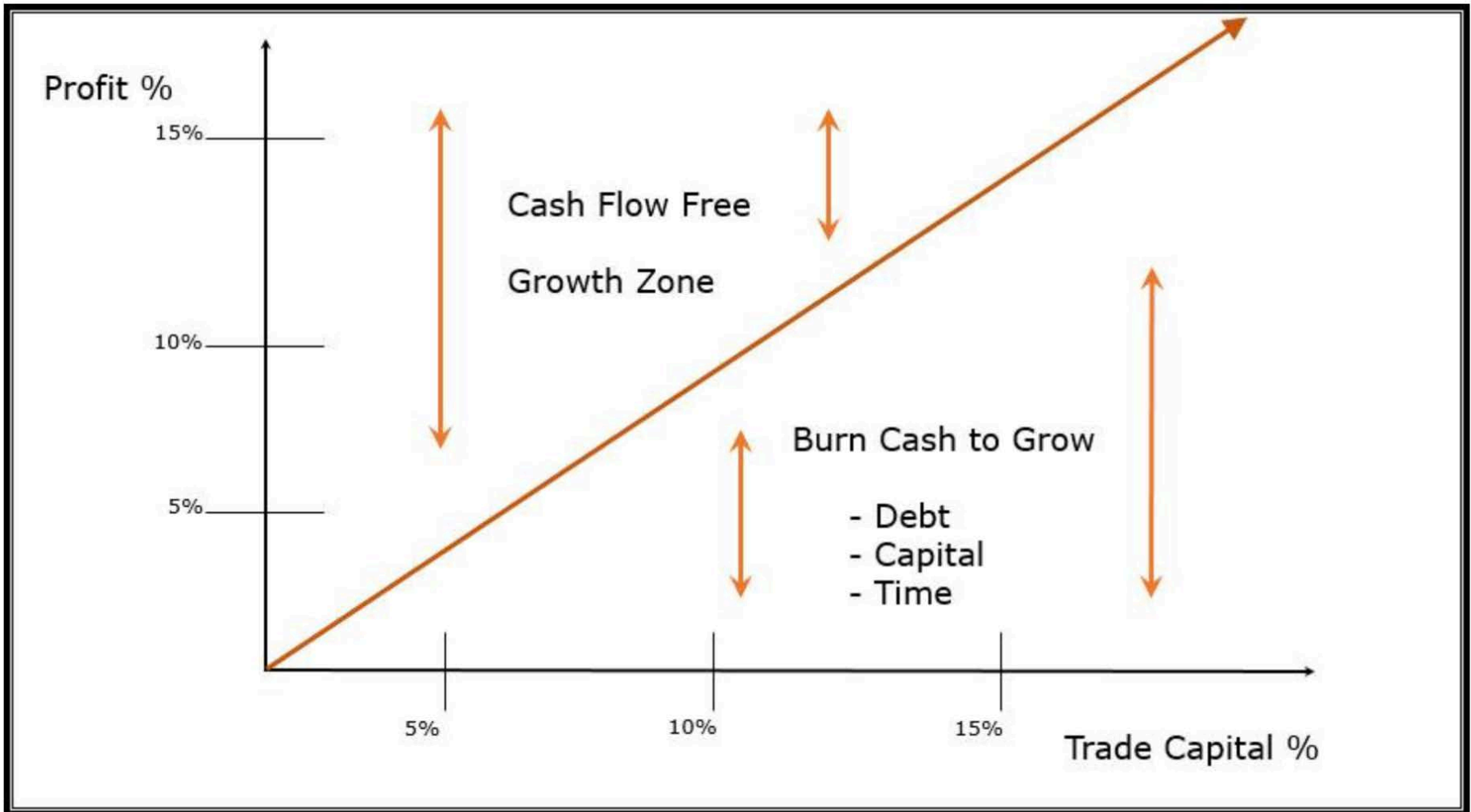
# Simple Numbers P&L Model

	Make	Sell	Do
Revenue	4,400,000	40,000,000	10,000,000
Cost of Goods Sold	1,800,000	34,650,000	500,000
<b>Gross Margin</b>	2,600,000	5,350,000	9,500,000
<i>as % to Sales</i>	59.09%	13.38%	95.00%
Direct Labor	900,000	1,100,000	4,750,000
<b>Contribution Margin (CM)</b>	1,700,000	4,250,000	4,750,000
<i>as % to Sales</i>	38.64%	10.63%	47.50%
<i>dLER (GM / Direct Labor)</i>	2.89	4.86	2.00
<b>Operating Expenses:</b>			
Facilities	240,000	270,000	890,000
Marketing	36,000	180,000	160,000
Management Labor	450,000	1,500,000	1,100,000
Payroll taxes & benefits	180,000	400,000	800,000
Other operating expenses	100,000	430,000	600,000
<b>Total Operating Expenses</b>	1,006,000	2,780,000	3,550,000
<i>as % to Sales</i>	22.86%	6.95%	35.50%
<i>mLER (CM / Management Labor)</i>	3.78	2.83	4.32
<b>Net Operating Income</b>	694,000	1,470,000	1,200,000
<i>as % to Sales</i>	15.77%	3.68%	12.00%
<i>as % to GM</i>	26.69%	27.48%	12.63%
<b>Other Income (Expense):</b>			
Interest income	1,000	1,500	3,000
Depreciation	(100,000)	(75,000)	(50,000)
Reinvestment Expenses	-	(150,000)	(100,000)
Other expenses	(10,000)	(5,000)	(15,000)
<b>Total Other Income (Expense)</b>	(109,000)	(228,500)	(162,000)
<b>Net Income</b>	585,000	1,241,500	1,038,000
<i>as % to Sales</i>	13.30%	3.10%	10.38%
<i>as % to GM</i>	22.50%	23.21%	10.93%

# 4 Needs for Capital

	Make	Sell	Do
Net Income	585,000	1,241,500	1,038,000
<i>as % to Revenue</i>	<b>13.3%</b>	<b>3.1%</b>	<b>10.4%</b>
Trade Capital			
Accounts Receivable	542,465.75	2,191,780.82	1,232,876.71
Inventory	295,890.41	2,847,945.21	-
WIP	-	-	410,958.90
Accounts Payable	(295,890.41)	(4,271,917.81)	-
Deferred Revenue	-	-	(1,095,890.41)
Net Trade Capital	542,465.75	767,808.22	547,945.21
<i>as % to Revenue</i>	<b>12.3%</b>	<b>1.9%</b>	<b>5.5%</b>
Infrastructure Capital (net of debt)	250,000.00	750,000.00	100,000.00
Buffer Capital	317,666.67	646,666.67	1,383,333.33
Required Capital	1,110,132.42	2,164,474.89	2,031,278.54
<b>ROIC</b>	<b>53%</b>	<b>57%</b>	<b>51%</b>

# CPR: Cash Power Ratio





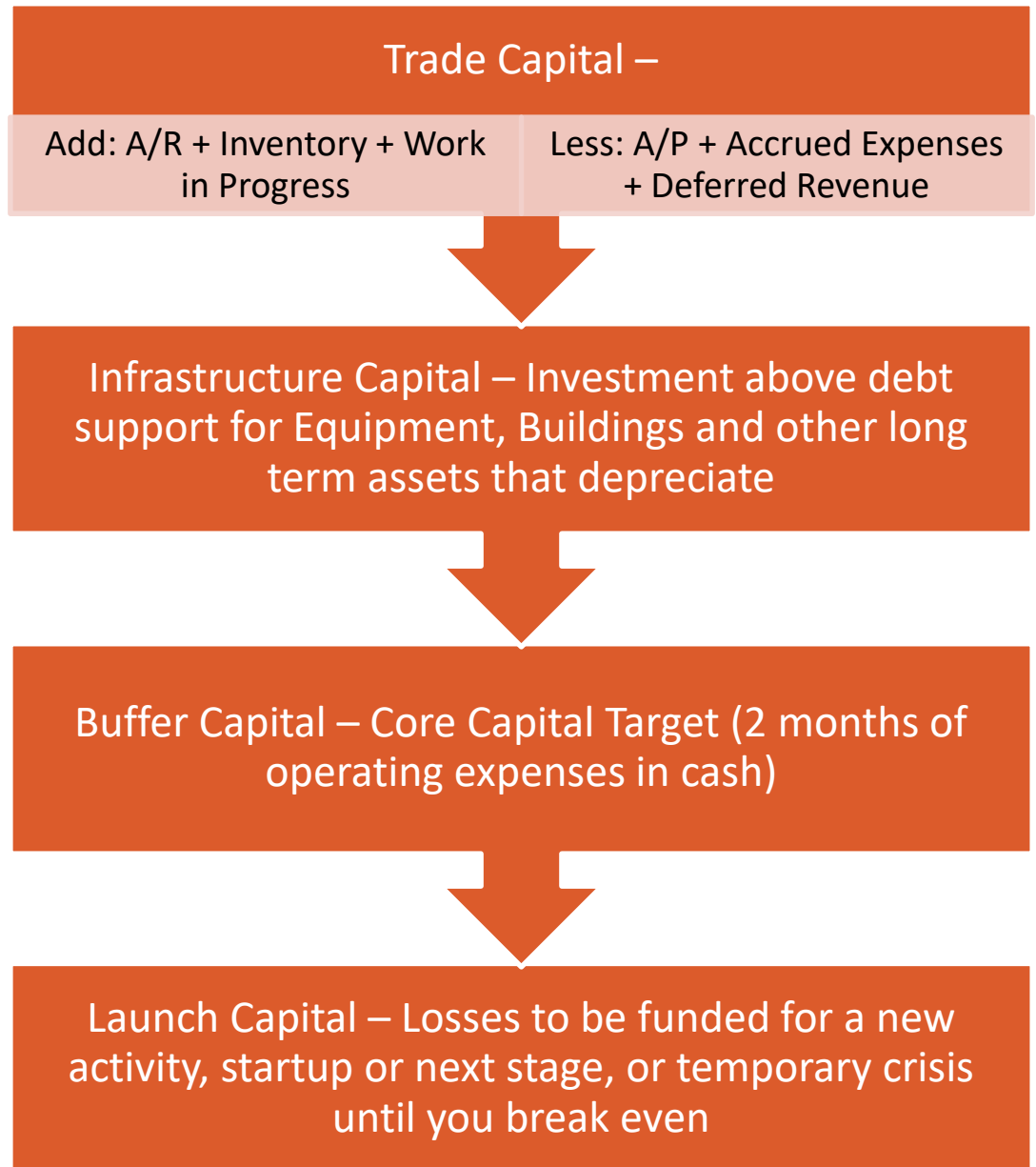
Trade Capital % compared to Profit % is the key to understanding cash flow as you scale up out of a business slump.

In Simple Numbers terminology:

***Trade Capital + Buffer Capital = Working Capital***

Trade Capital is forced on you by the market, Buffer Capital (Cash & Debt) are choices based on your access to resources.

# 4 Needs for Capital



# Revisiting the ~~Four~~ Five Forces of Cash Flow

Prioritized in order:

1. Make Reinvestments into Business at 50% ROI
2. Set Aside Tax Liability (Quarterly)
3. Repay Line of Credit (LOC) Debt
4. Core Capital Target in Reserves – 2 months of operating expenses and Direct Labor in cash with nothing drawn on Line of Credit (LOC)
5. Pay Dividends (Distributions)


This is the priority order for cash to be used from profits

# Core Capital Target Calculation

	Retail/Mfg	Distribution	Services
Revenue	4,400,000	40,000,000	10,000,000
Cost of Goods Sold	1,800,000	34,650,000	500,000
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<i>as % to GM</i>	26.69%	27.48%	12.63%
<b>1 Month Core Capital</b>	158,833	323,333	691,667
<b>2 Month Core Capital</b>	317,667	646,667	1,383,333

# Launch Capital Process

Identify the initial new spend that will be the catalyst to the new activity  
(marketing, labor, facilities)



Forecast how much losses will be until the activity will break even. Those losses  
represent “launch capital”



Establish expectation of profit increase (and when) from that spend



Our standard is minimum of 50% return with 12 to 24 months

# Monthly P&L Forecast

<b>Profit and Loss</b>						5%	5%	5%
<b>Monthly</b>						Forecast	Forecast	Forecast
	2018-03	2018-04	2018-05	2018-06	2018-07	2018-08	2018-09	2018-10
<b>Revenue</b>	1,516,016.94	1,471,114.43	1,312,517.95	1,367,281.52	1,258,512.77	1,245,926.67	1,318,649.53	1,264,557.12
<b>Cost of Goods Sold</b>	357,817.86	427,936.80	369,921.70	358,566.31	318,801.82	311,481.67	329,662.38	316,139.28
<b>Gross Margin</b>	1,158,199.08	1,043,177.63	942,596.25	1,008,715.21	939,710.95	934,445.00	988,987.15	948,417.84
as a % of sales	76%	71%	72%	74%	75%	75%	75%	75%
<b>Direct labor</b>	248,263.34	248,703.34	254,928.26	274,888.73	275,530.04	252,552.70	267,293.82	256,329.15
as a % of sales	16%	17%	19%	20%	22%	20%	20%	20%
Direct LER	4.67	4.19	3.70	3.67	3.41	3.70	3.70	3.70
<b>Contribution Margin</b>	909,935.74	794,474.29	687,667.99	733,826.48	664,180.91	681,892.30	721,693.32	692,088.70
as a % to sales	60%	54%	52%	54%	53%	55%	55%	55%
as a % to GM	79%	76%	73%	73%	71%	73%	73%	73%
<b>Operating expenses:</b>								
Facilities	177,908.52	171,796.22	189,429.99	192,303.25	163,018.95	175,000.00	175,000.00	175,000.00
Marketing	32,865.73	20,729.58	6,888.63	12,616.98	5,534.18	24,918.53	26,372.99	25,291.14
Management Labor	196,584.40	199,526.78	178,015.63	186,188.08	170,882.18	190,000.00	190,000.00	190,000.00
Payroll Tax and Benefit	57,373.74	61,108.74	57,870.19	62,464.34	59,866.44	75,233.96	77,739.95	75,875.95
Other Operating Expense	126,567.57	100,032.47	119,779.22	126,013.00	91,904.90	99,674.13	105,491.96	101,164.57
<b>Total operating expenses</b>	591,299.96	553,193.79	551,983.66	579,585.65	491,206.65	564,826.63	574,604.90	567,331.67
OpEx as % of Sales	39%	38%	42%	42%	39%	45%	44%	45%
Management LER	4.63	3.98	3.86	3.94	3.89	3.59	3.80	3.64
<b>Net operating income</b>	318,635.78	241,280.50	135,684.33	154,240.83	172,974.27	117,065.67	147,088.42	124,757.03
as % to Sales	21%	16%	10%	11%	14%	9%	11%	10%
as a % to GM	28%	23%	14%	15%	18%	13%	15%	13%
<b>Other income (expense):</b>								
Other income (expense)	-	-	-	-	-	-	-	-
Interest Expense	(7,058.48)	(6,836.83)	(6,663.24)	(6,488.66)	(7,213.42)	(5,000.00)	(5,000.00)	(5,000.00)
Depreciation	(37,879.85)	(41,340.57)	(41,229.82)	(33,568.70)	(30,712.12)	(30,000.00)	(30,000.00)	(30,000.00)
Other Expense	(2.01)	(4.96)	(4.08)	(2.89)	(3.12)	-	-	-
<b>Total other income (expense)</b>	(44,940.35)	(48,182.36)	(47,897.14)	(40,060.25)	(37,928.67)	(35,000.00)	(35,000.00)	(35,000.00)
<b>Net Income</b>	273,695.43	193,098.14	87,787.19	114,180.58	135,045.60	82,065.67	112,088.42	89,757.03
Net Income as % of Sales	18%	13%	7%	8%	11%	7%	9%	7%
NI YTD	735,026.33	928,124.47	1,015,911.66	1,130,092.24	1,265,137.84	1,347,203.51	1,459,291.93	1,549,048.96
Facilities as % to CM	20%	22%	28%	26%	25%	26%	24%	25%
Marketing (as % to sales)	2.2%	1.4%	0.5%	0.9%	0.4%	2.0%	2.0%	2.0%
Payroll Taxes and Benefit (as % of all labor)	13%	14%	13%	14%	13%	17%	17%	17%
Other Operating Expense (as % to sales)	8.35%	6.80%	9.13%	9.22%	7.30%	8.00%	8.00%	8.00%



Surviving and Thriving in a Crisis

# USING THE TEMPLATE

# Step One: Input Actuals for P&L

Monthly Template Profit and Loss									14%	14%	-
YoY % change		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	For	
		2019-07	2019-08	2019-09	2019-10	2019-11	2019-12	2020-01	2020-02	20	
<b>Revenue</b>		229,025	270,425	2				365,069	285,000	1	
<b>Cost of Goods Sold</b>		12,129	6,091					3,613	12,825		
<b>Gross Margin</b>		216,896	264,334					361,456	272,175	1	
	as a % of sales	95%	98%					99%	96%	1	
<b>Direct labor</b>		98,541	116,779					25,169	99,742	1	
	as a % of sales	43%	43%					34%	35%		
	Direct LER	2.20	2.26					2.89	2.73		
<b>Contribution Margin</b>		118,356	147,555					36,287	172,433		
	as a % of sales	52%	55%					65%	61%		
<b>Operating expenses:</b>											
Facilities		17,150	18,544					22,917	22,642	1	
Marketing		8,044	13,308					13,849	9,452		
Management Labor		37,650	37,650					39,317	38,250	1	
Payroll Tax and Benefit		25,932	26,975					34,800	27,121		
Other Operating Expense		41,394	26,995					11,794	39,876	1	
<b>Total operating expenses</b>		130,171	123,471					52,677	137,341	1	
	OpEx as % of Sales	57%	46%					42%	48%		
	Management LER	3.14	3.92					6.01	4.51		
<b>Net operating income</b>		(11,816)	24,084	30,149	48,683	(14,743)	50,042	83,610	35,092	(	
	NOI as % to Sales	-5%	9%	12%	18%	-6%	16%	23%	12%		

Input Actual Numbers for:  
 Revenue,  
 Cost of Goods Sold,  
 Direct Labor  
**AND**  
 Facilities,  
 Marketing,  
 Management Labor,  
 Payroll Taxes & Benefits, and  
 Other Operating Expenses



# Step Two: Input Actuals for Balance Sheet

Monthly Template Profit and Loss										
	YoY % change	Actual	Actual	Actual	Actual	Actual	Actual	14%	14%	-42%
		2019-07	2019-08	2019-09	2019-10	2019-11	2019-12	Actual	Actual	Forecast
								2020-01	2020-02	2020-03
<b>Balance Sheet</b>										
<b>Key Drivers</b>										
A/R Days		55.41						34.50	45.00	43.00
Inventory Days		-						-	-	-
A/P Days		6.84						51.84	17.37	7.00
Deferred Revenue Days		-						-	-	-
<b>Trade Capital</b>										
		<b>417,149</b>						<b>7,317</b>	<b>345,639</b>	<b>70,786</b>
Accounts Receivable		481,493						88,046	487,552	215,000
Inventory		-						-	-	-
Other Current Assets		15,051						6,603	6,603	6,603
Accounts Payable		(2,764)						(6,243)	(7,426)	(1,400)
Deferred Revenue		-						-	-	-
Other Liabilities		(76,631)						41,090	(141,090)	(149,410)
<b>Infrastructure Capital</b>										
		<b>21,554</b>								
Net Book Value of Fixed Assets		21,554						-	-	-
Debt on Fixed Assets		-						-	-	-
<b>Buffer Capital</b>										
		<b>258,347</b>								
Cash		258,347						89,571	426,885	615,870
LOC		-						-	-	-
<b>Equity</b>										
		<b>697,050</b>						<b>0,587</b>	<b>795,679</b>	<b>709,269</b>
Starting Equity		708,866						76,977	760,587	795,679
Profit (Loss)		(11,816)						83,610	35,092	(86,410)
Contribution (Distribution)		(0)						(0)	0	-

Using your Balance Sheet, Input the following data:

- Accounts Receivable Days Sales Outstanding
- Accounts Receivable
- Inventory
- Other Current Assets
- Accounts Payable
- Deferred Revenue
- Other Liabilities
- Net Book Value of Fixed Assets
- Debt on Fixed Assets
- Cash
- Line of Credit

Use Traditional Balance Sheet Template to convert input to the Simple Numbers Balance Sheet if needed.

# Step Three: Revenue and GM% (PL)

- Forecast Revenues
- Next 90 Days
  - What is immediate impact to revenues?
- After Initial 90 Days
  - Will revenue pop back up to normal operations?
  - Will revenue slowly creep back up?
  - What is long term affects on your industry and company?
  - What are affects to your competition?
  - Are there opportunities we can prepare for now to profit on later?



# Step Four: Operating Expenses (PL)

- Forecast operating expenses
- What operating expenses can we reduce without effecting future operations? What can we eliminate altogether?
- Lease / Rent Expenses
- Marketing
- Management Labor reductions or temporary decrease in pay



# Step Five: Direct Labor (PL)



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- Forecast Direct Labor costs (unburdened)
- If Revenue declines, will Direct Labor also decline?
  - i.e. Pay by Job
- Staff Reductions?

## Step Six: Key Drivers (BS)

- Utilize your knowledge of sector and prior performance to forecast these drivers.
- A/R Days - If you know your customers are strongly effected (offices closed, etc), then you can assume your A/R Days will be higher than normal for the next 90 days, then returning to normal levels.
- A/P Days - If you can extend out some of your payment terms on payables, then you should increase the AP Days.

## Step Seven: Trade Capital (BS)

- Forecast for Inventory, Other Current Assets, and Other Liabilities.
- If your inventory is seasonal, link the \$\$ to same month prior year (with edits as needed for the crisis)

# Step Eight: Infrastructure & Buffer Capital (BS)

- Forecast Fixed Asset purchases, any Fixed Term Debt, and any Line of Credit balances here.
- Note: Many Banks are deferring payments and new loans have very low interest rates.
- SBA Disaster Loans are good for longer term financing at low interest rates.
- Stay informed on local (City and State) resources
- Template helps to quantify the cash flow need, given certain parameters and decisions.

# Step Nine: Distributions & Contributions

- Include any Tax Distributions
- STOP Profit Distributions
- Is there cash that can be Contributed to the company from owner(s)? How much are you willing to invest?





## Step Ten: Stop. Analyze.

- Look at debt incurred and determine how long it will take to repay? Delayed gratification because once operations return to normal, still repaying debt.
- If you have cash, if you could get a loan, how long will it take of future normal operations to repay?
- Is it better to go dark and relaunch business at future time (fixing all the things you would do differently)? Dark could be closing doors and liquidating OR just temporarily closing business.
- Prepare 3 versions – best, worst, expected