

KEY TERMS + CONCEPTS

CASH FLOW STATEMENT

- A cash flow statement is a summary of a company's cash sources and uses.

BALANCE SHEET

- Shows what a company owns (assets) vs. what a company owes (liabilities).
- Balance Sheet Eq.:
Assets = Liabilities + Equity.
- Review your current ratio to evaluate your short-term liquidity.

INCOME STATEMENT

- Shows what has been sold to generate revenue and the related expenses.
- EBITDA (earnings before interest, tax, depreciation, and amortization) – eliminates impact of mgmt. discretion in funding sources and accounting methodologies. Used by bankers to assess operating health. Used for acquisition valuations.

GENERAL

- Accrual basis accounting provides better visibility on a monthly basis by matching revenues and expenses.
- Liquidity ratios address: Do you have the assets on hand right now to meet your obligations over the next year?
- Solvency ratios address: Is your business generating enough profit to meet your total obligations now and in the future?



BUDGETING BEST PRACTICES

- **Create an annual budget** every year using actual data
- **Communicate goals** to department managers and others
- **Align employee incentives** with company goals, ensure pay is financially sustainable
- Regularly **review your actuals vs. budget** and address variances
- **Maintain consistency of reporting** over time for comparability purposes
- **Optimize cost structure** based upon benchmarking of similar companies
- Employ **accrual basis accounting** in all areas
- **Close books monthly**
- **Assess liquidity** and fund fixed assets with term debt where appropriate
- **Ensure that all divisions are profitable** - no loss leaders
- **Manage working capital funds** separate from customer deposits

KEY CREDIT RATIOS

Current Ratio

TIP: Higher is better. The goal is >1.0x

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Debt Service Coverage Ratio

TIP: Higher is better. The goal is >1.25x

$$\frac{\text{Net Income} + \text{Amortization \& Depreciation} + \text{Interest} - \text{Distributions}}{\text{Annual Principal \& Interest} + \text{Capital Lease Payments}}$$

Total Funded Debt / EBITDA

TIP: Lower is better. The goal is <5.0x

$$\frac{\text{Total Principal Owed to All Lenders} + \text{Average Line Balance}}{\text{Net Income} + \text{Amortization \& Depreciation} + \text{Interest}}$$

Receive a Complimentary Mini-Budget and Company Review

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