



Executive Action Report

For the month ending January 31, 2014
(and the prior thirteen months)

Hello Telephone Co

North American Industry Classification System (NAICS) = 621210 

Secure Data Encryption by:



Industry Data Provided by:



Note: These reports are for discussion purposes only. We strongly encourage any user of this report to consult with a competent business financial advisor and / or certified public accountant before making any financial decisions and to validate all relevant data. There can be no representations whatsoever as to the accuracy or completeness of these reports as they are fully reliant on the data supplied by the user.



Hello Telephone Co

Executive Action Summary

Dear Alex G. Bell,

Here is this month's eFO report. This report covers from January 31, 2013 to January 31, 2014, in monthly periods, with a focus on the last month of January 2014. This Executive Action Summary identifies the top opportunities eFO found from your QuickBooks® data in the areas of Cash Lost, Cash Required, and Profitability. Please look for additional details in the enclosed report. We strongly encourage you to review your financial information on at least a monthly basis. Also, most reports show substantial opportunity for improvement. Start with one key area and prove that you can make meaningful improvements. If you only improve your business 1% per month, that can have a dramatic impact on cash flow and profitability.

CASH LOST

The last period in this report, January 31, 2014, indicates the largest Cash Lost opportunity is Inventory based on the goal set for Inventory Days, Hello Telephone Co has \$385,000 tied up in Inventory. For each day you decrease your Inventory at Hello Telephone Co will have a positive Cash impact of \$8,889.

CASH REQUIRED

You have no Cash Required issues as of month ending January 31, 2014.

PROFIT

As of January 31, 2014, Hello Telephone Co's most significant Profit opportunity is Gross Margin based on the goal set for Gross Margin percentage, Hello Telephone Co is short of its Gross Margin goal by \$72,500. For each 1% increase in Gross Margin, Hello Telephone Co will have a positive Profit impact of \$3,750.

Best regards,

Bob Carstens
CEO and Co-Founder



Key Performance Metrics



Hello Telephone Co

Report Period Ending 01/31/2014	Ratio	Formula	Calculations = For Current Month	Actual Annualized	Two (2) Months Ago	Last Month	Current Month + Performance to Goal	Month-to-Month Trend	Goal	Industry Standard Top 10% 25% Median 25% 10% Bottom
					11/30/13	12/31/13	1/31/14			
SHORT TERM RATIOS: Liquidity & Profitability										
Current	?	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$= \frac{1,543,042}{604,320}$	2.5	2.6	2.6	2.6	▼	2.9	3.5 3.3 2.7 2.2 1.4
Quick	?	$\frac{\text{Cash} + \text{Accts. Rcv.}}{\text{Current Liabilities}}$	$= \frac{863,777}{604,320}$	1.6	1.7	1.5	1.4	▼	2.0	2.1 1.9 1.5 1.1 0.8
Gross Margin	?	$\frac{\text{Gross Profit}}{\text{Sales}}$	$= \frac{85,000}{350,000}$	31.1%	35.0%	26.7%	24.3%	▼	45.0%	53% 45% 30% 15% 4%
Net Margin	?	$\frac{\text{Net Profit Before Tax}}{\text{Sales}}$	$= \frac{203}{350,000}$	3.9%	8.8%	1.4%	0.1%	▼	10.0%	10% 5% 4% -4% -22%
CASH CONVERSION CYCLE ELEMENTS										
Inventory Turn-Days	?	$\frac{\text{Inventory X 30 Days}}{\text{COGS (COS)}}$	$= \frac{650,000 \times 30}{265,000}$	68	64	70	74	▲	30	30 39 42 53 87
Accounts Receivable Turn-Days	?	$\frac{\text{Receivables X 30 Days}}{\text{Sales}}$	$= \frac{850,000 \times 30}{350,000}$	80	78	72	73	▲	50	24 37 40 43 53
Average Payment Period-Days	?	$\frac{\text{Payables X 30 Days}}{\text{COGS (COS)}}$	$= \frac{250,000 \times 30}{265,000}$	30	32	28	28	▼	60	58 48 32 21 11
Cash Conversion Cycle	?	$\text{Inv Days} + \text{Rcv Days} - \text{Payment Days}$	$= 73.6 + 72.9 - 28.3$	118	110	113	118	▲	20	-4 28 50 75 129
RATIOS OF: Equity & Assets*										
Sales to Assets	?	$\frac{\text{Sales}}{\text{Total Assets}}$	$= \frac{1,125,000 \times 4}{2,308,235}$	2.0	2.1	1.9	1.9	▲	2.0	3.3 2.3 1.0 0.4 0.3
Return on Assets	?	$\frac{\text{Net Profit Before Tax}}{\text{Total Assets}}$	$= \frac{40,600 \times 4}{2,308,235}$	8%	9.3%	7.6%	7.0%	▼	10.0%	30% 4% 1% 0% -25%
Return on Equity	?	$\frac{\text{Net Profit Before Tax}}{\text{Equity}}$	$= \frac{40,600 \times 4}{1,064,194}$	17%	20.6%	16.6%	15.3%	▼	14.5%	35% 7% 1% 0% -35%
Debt to Equity	?	$\frac{\text{Total Liabilities}}{\text{Equity}}$	$= \frac{1,244,041}{1,064,194}$	1.3	1.2	1.2	1.2	▼	0.8	0.3 0.5 0.7 0.9 1.8

*NOTE: RATIOS OF: Equity & Assets use last 3 month rolling average annualized for the numerator.

NA designates the Metric is not of value in this company.



Actual Performance to Goal Key

Better than Goal

≤ 25% away from Goal

Greater than 25% from Goal

Greater than 50% from Goal



Industry Data Supplied by:





Financial Flow - Cause and Effect



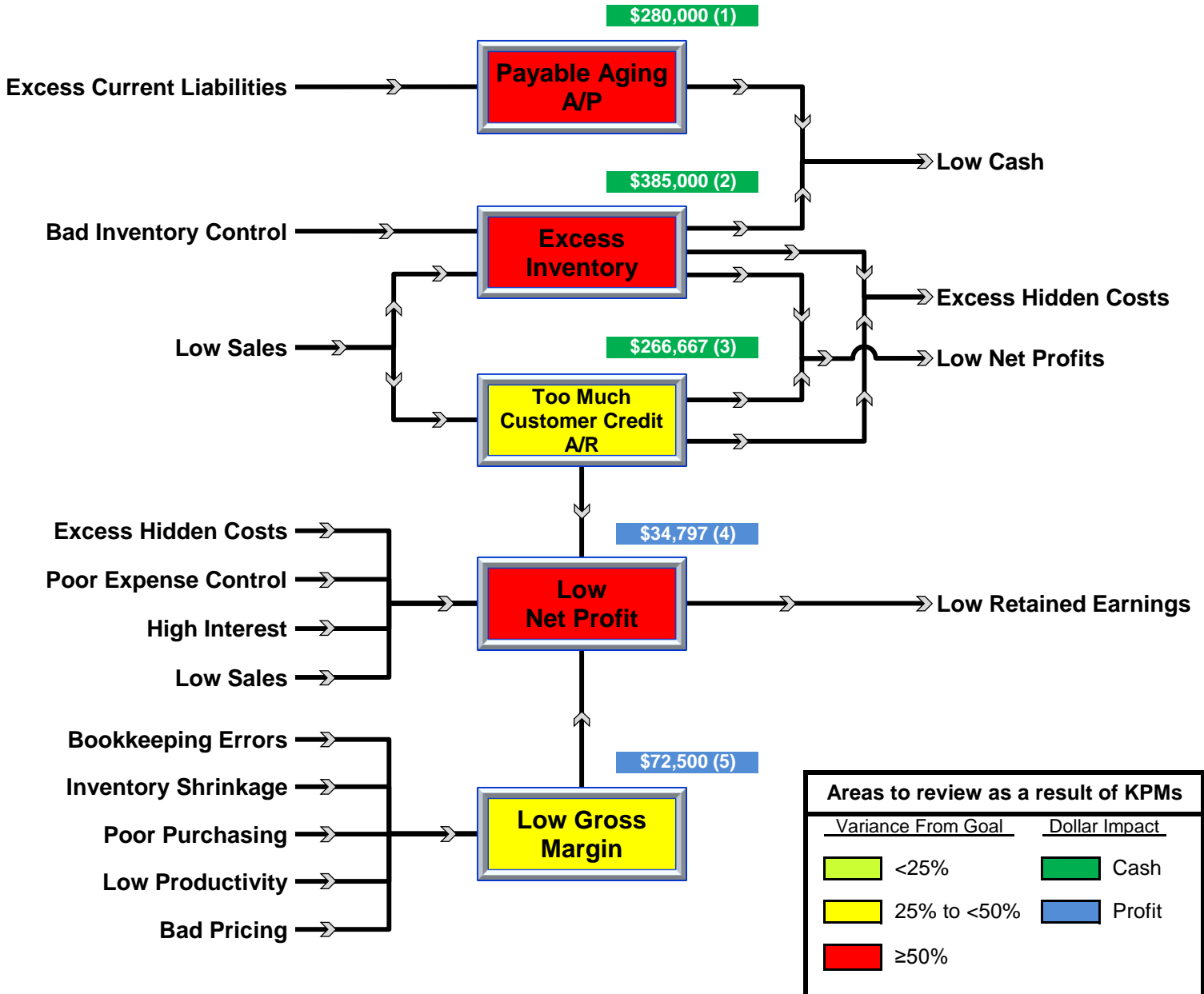
Period Ending
1/31/2014

Hello Telephone Co

Hidden Cash & Lost Profits...

Causes...

Results in...



Areas to review as a result of KPMs	
Variance From Goal	Dollar Impact
 <25%	 Cash
 25% to <50%	 Profit
 ≥50%	

Footnotes

- (1) Payments are 32 days faster than the goal of 60 days with a \$280,000 negative Cash Impact.
- (2) Inventory is 44 days over the goal of 30 days with a \$385,000 negative Cash Impact.
- (3) Customer Credit / Accounts Receivable is 23 days over the goal of 50 days with a \$266,667 negative Cash Impact.
- (4) Net Profit is 9.9% under the goal of 10.0% with a \$34,797 negative Profit Impact over the time period.
- (5) Gross Margin is 20.7% under the goal of 45.0% with a \$72,500 negative Profit Impact over the time period.

Tutorial

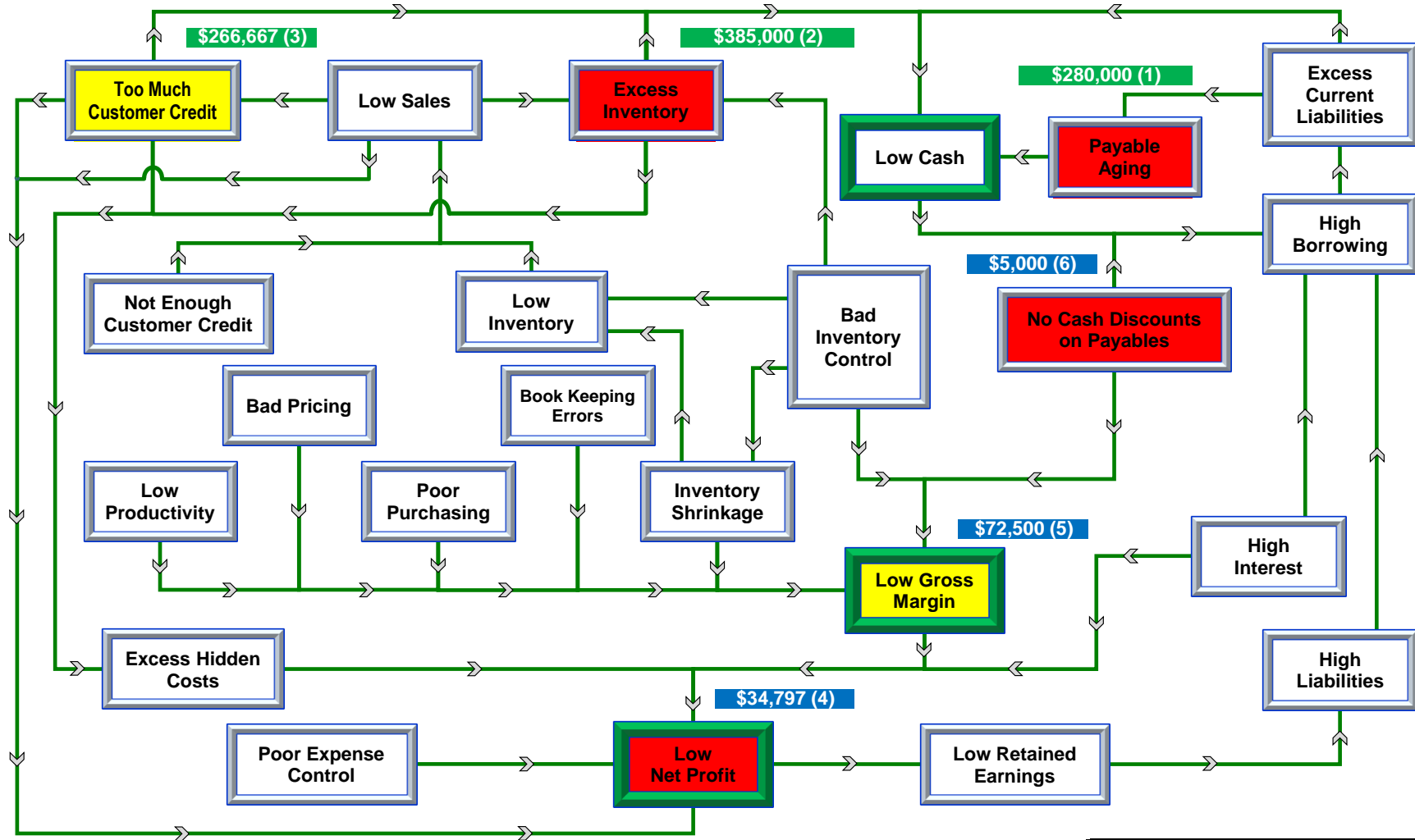


Financial Flow Chart



Hello Telephone Co

Period Ending
1/31/2014



Footnotes

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- (3) Customer Credit / Accounts Receivable is 23 over the Goal of 50 days with a \$266,667 negative Cash Impact.
- (4) Net Profit is 9.9% under the goal of 10.0% with a \$34,797 negative Profit Impact over the time period.
- (5) Gross Margin is 20.7% under the goal of 45.0% with a \$72,500 negative Profit Impact over the time period.
- (6) There is a potential 2% discount on payables having a \$5,000 Profit Impact if no discounts were taken.

Areas to review as a result of KPMs

Distance From	Impact
<25%	Cash
25% to <50%	Profit
≥50%	

Tutorial



Financial Summary



Hello Telephone Co

Period ending 01-31-2014

Cash and Profit Impact		
Issue	Cash Tied Up	Profit Opportunities
Receivables	\$266,667	
Inventory	\$385,000	
Payables	\$280,000	
Payable Discounts		\$5,000
Gross Margin		\$72,500
Net Margin		\$34,797
Total	\$931,667	\$112,297

Sensitivity Analysis		
Metric		Impact
Cash Conversion Metrics		1-Day Sensitivity*
Inventory Turn-Days	=	\$8,889 per day
Accounts Receivable Turn-Days	=	\$12,500 per day
Average Payable Payment Period	=	\$8,889 per day
Margin Metrics (Month)		1% Margin Sensitivity**
Margin (Gross or Net)	=	\$3,750 per 1%

* Note: A 1 day of improvement in these metrics would increase the Cash of Hello Telephone Co by the amount shown based on the last 3 months average.

**Note: 1% improvement in margin would mean an increase in profits of \$3,750 to Hello Telephone Co based on the last 3 months average.

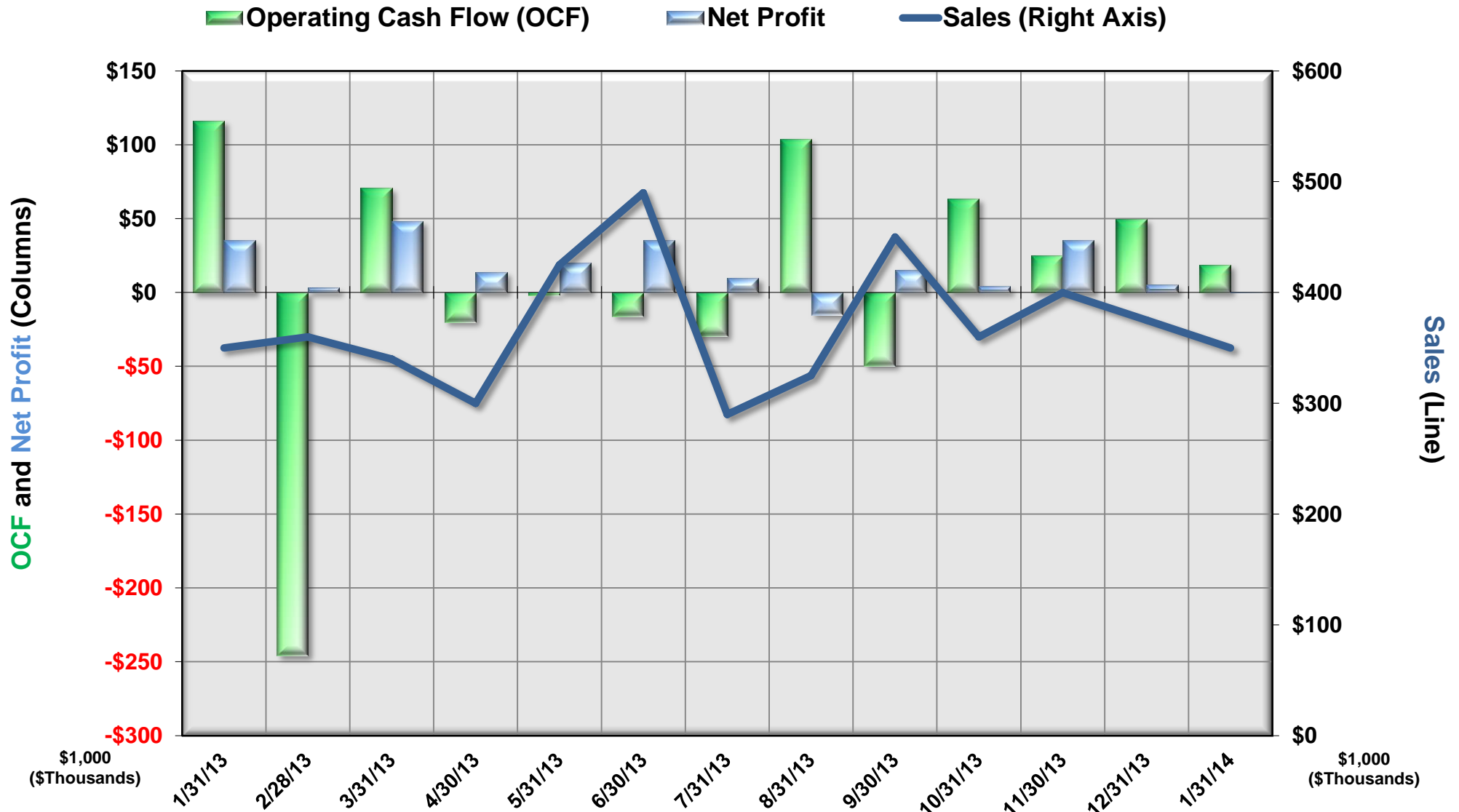
[Tutorial](#)



Trend Chart

Sales, Net Profit & Operating Cash Flow

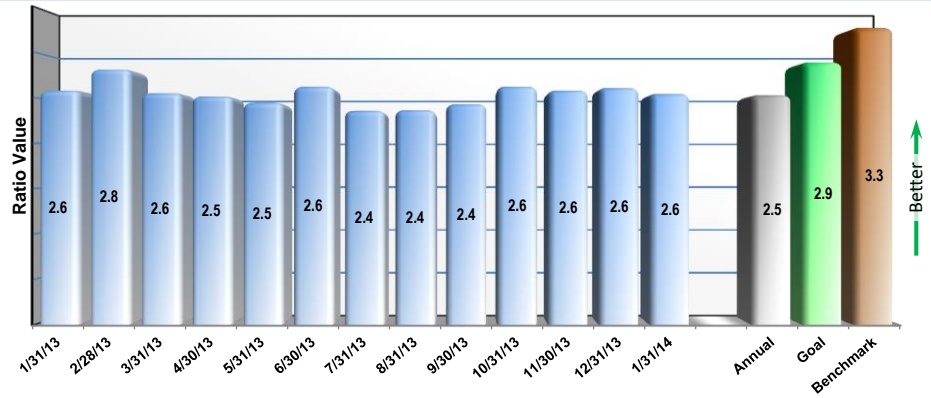
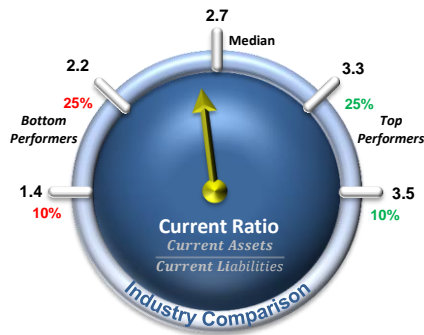
Hello Telephone Co



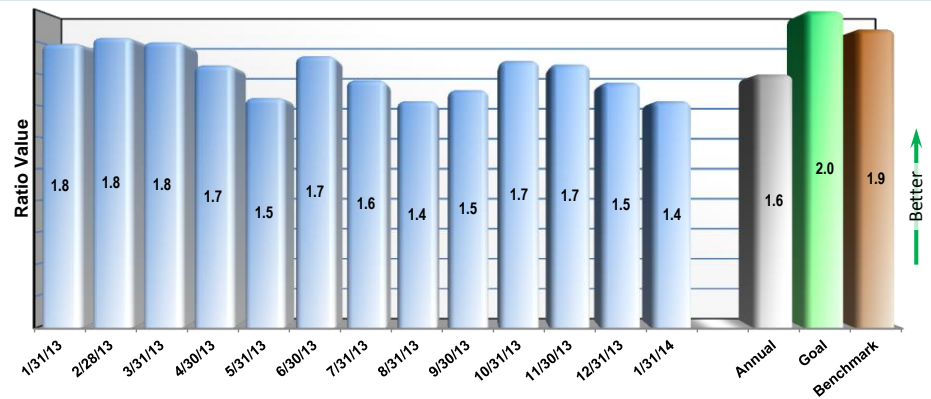
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Hello Telephone Co

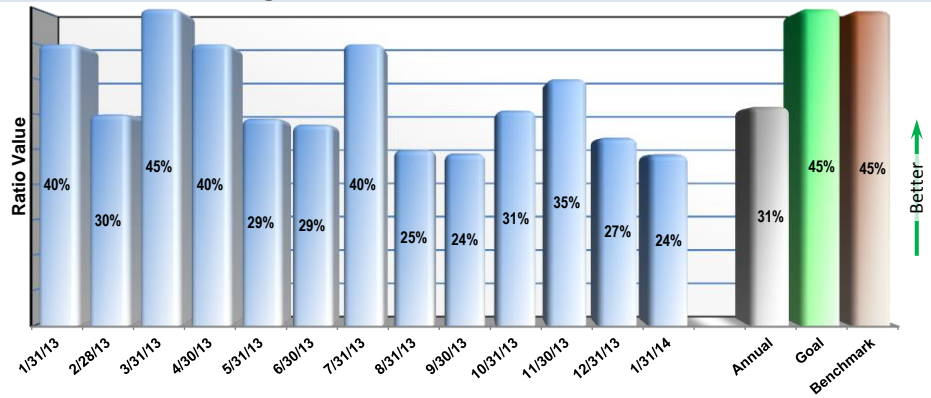
Current Ratio



Quick Ratio

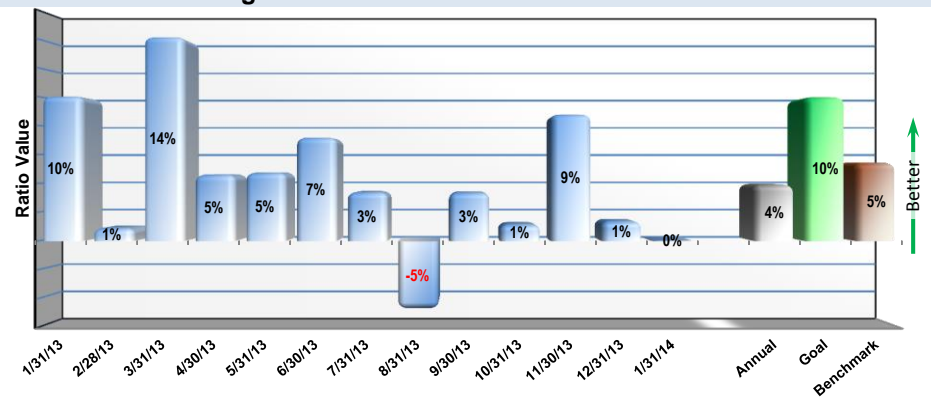
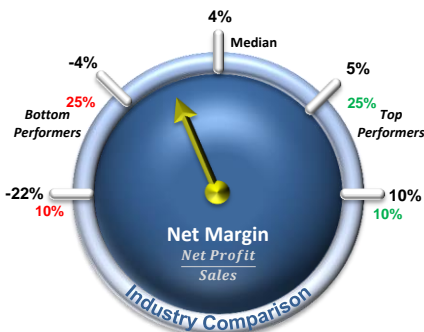


Gross Margin



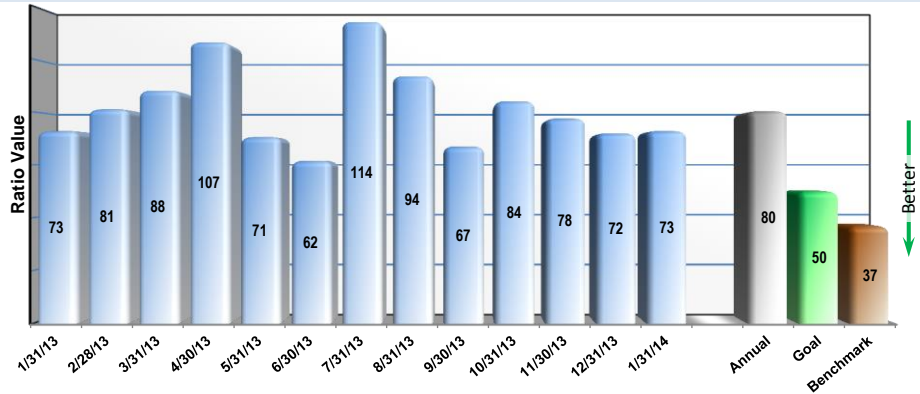
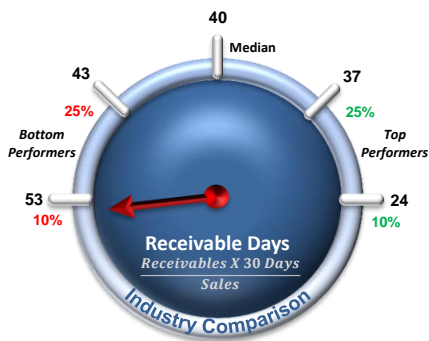
Performance to Goal: Gross Margin is 20.7% under the Goal of 45.0% with a negative \$72,500 Profit Impact over the time period.

Net Margin



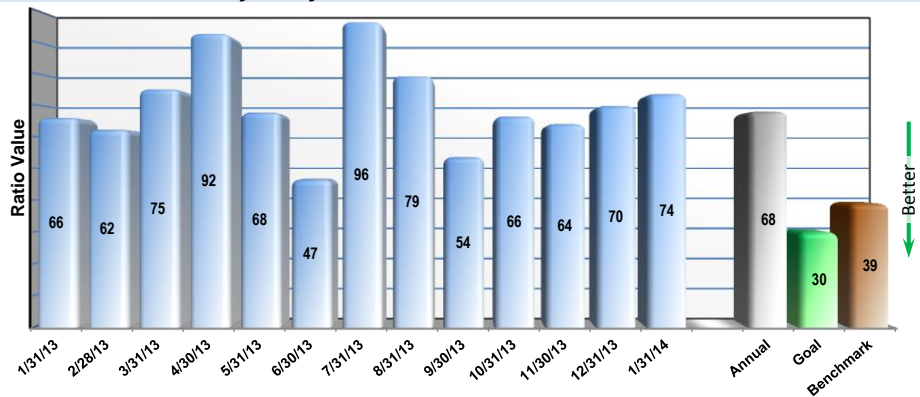
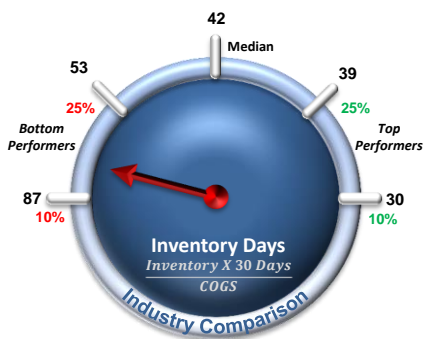
Performance to Goal: Net Margin is 9.9% under the Goal of 10.0% with a negative \$34,797 Profit Impact over the time period.

Receivable - Days



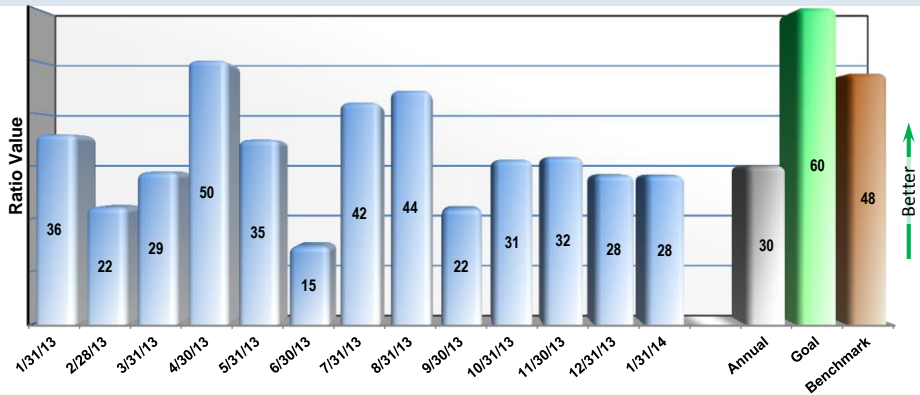
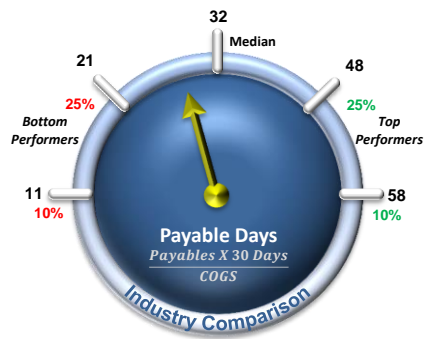
Performance to Goal: Accounts Receivable is 23 days over the Goal of 50 days with a \$266,667 negative cash impact.

Inventory - Days



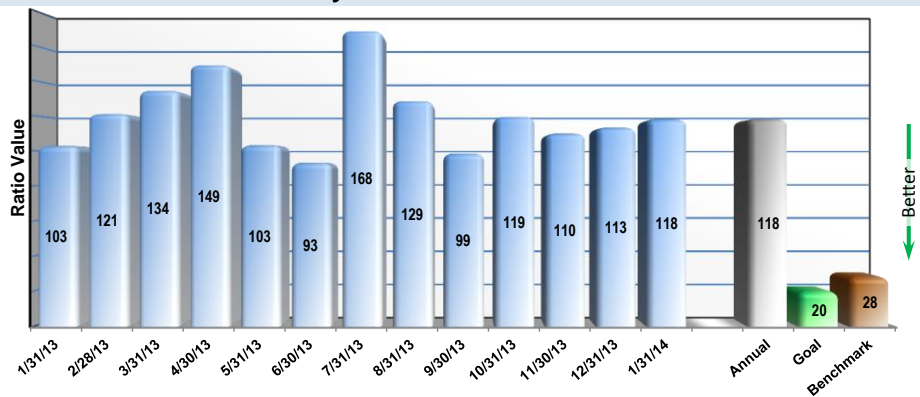
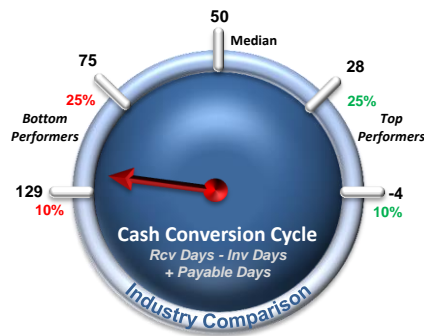
Performance to Goal: Inventory is 44 days over the Goal of 30 days with a \$385,000 negative cash impact.

Payable - Days



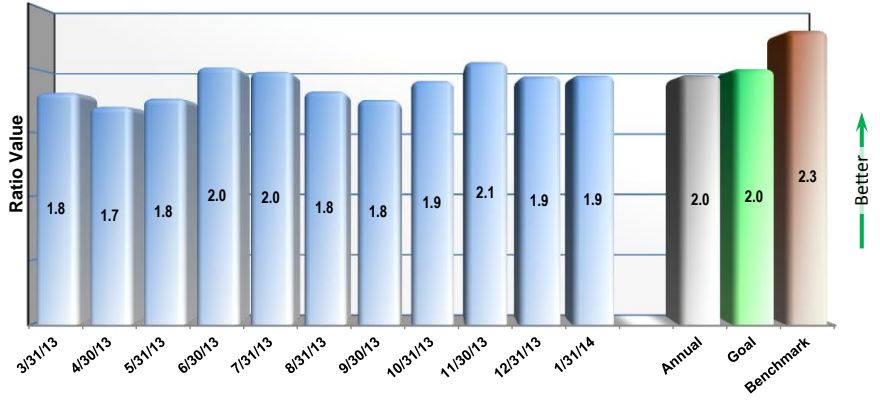
Performance to Goal: Payments are 32 days faster than the Goal of 60 days with a \$280,000 negative cash impact.

Cash Conversion Cycle

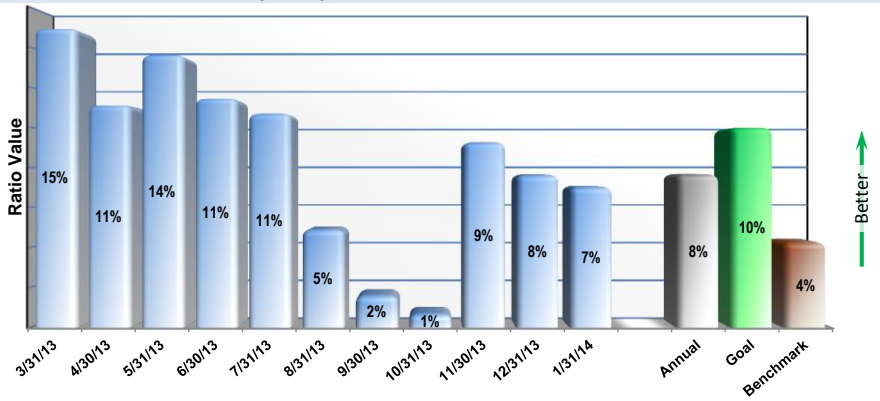
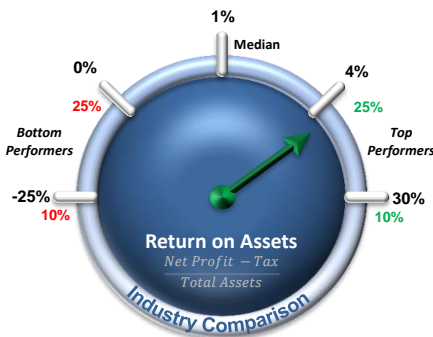


Performance to Goal: The Cash Conversion Cycle is 98 days over the Goal of 20 days with a \$931,667 negative cash impact.

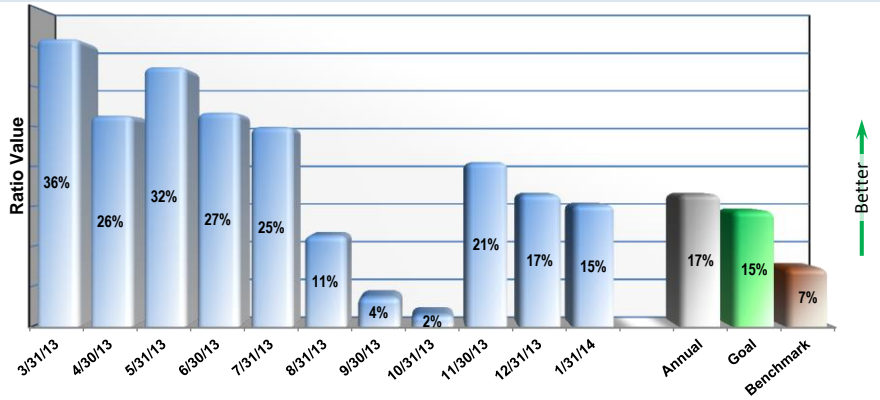
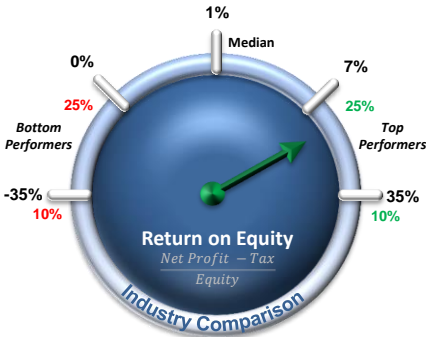
Sales to Assets



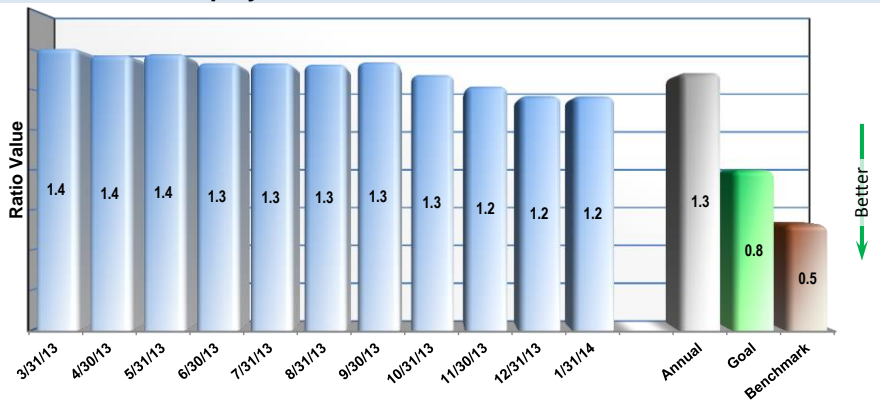
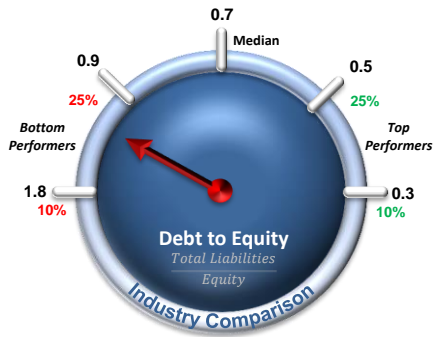
Return on Assets (ROA)



Return on Equity (ROE)



Debt to Equity



NOTE: Benchmark in charts is set to Top 25% (Quartile) of this industry NACIS code: 117874



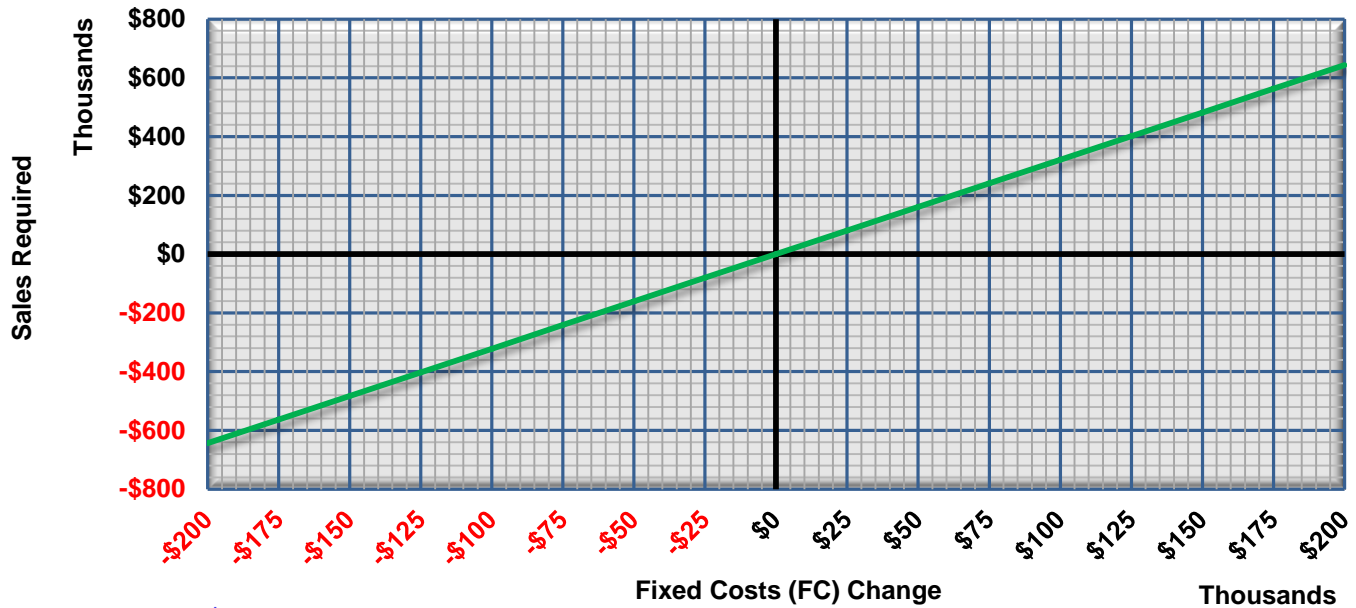
Planning

Impacts of Fixed and Variable Cost Changes

Hello Telephone Co



Sales Required to Support Fixed Costs Changes

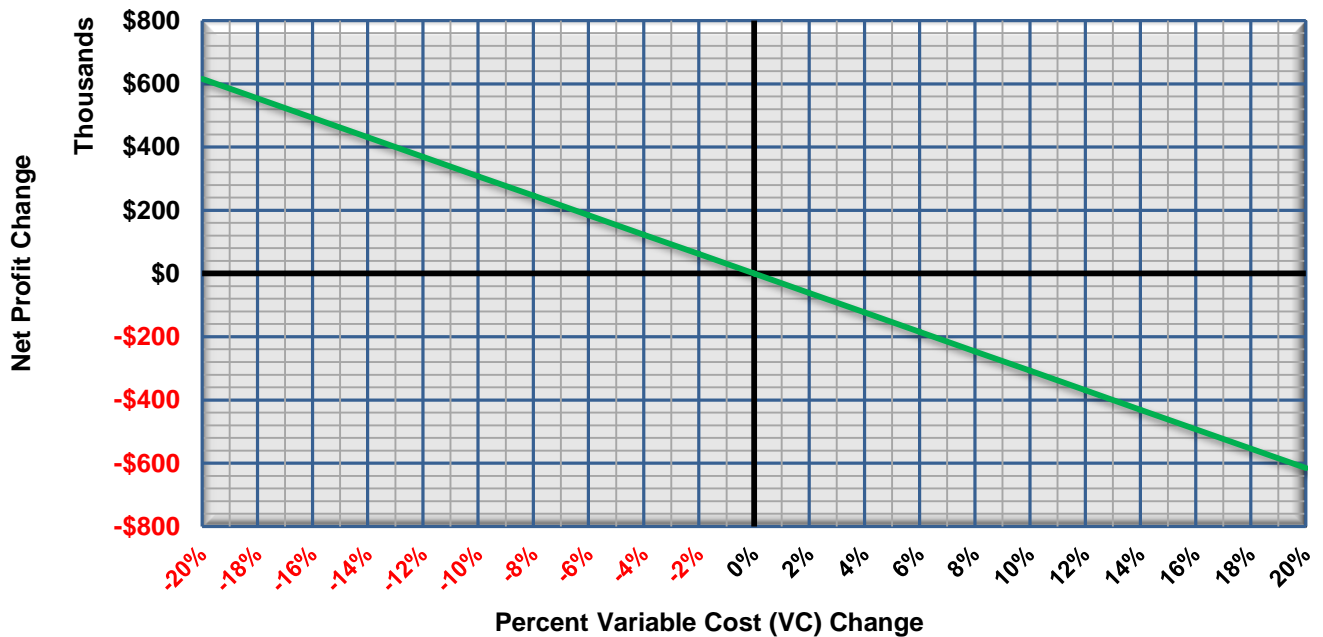


Current FC = \$1,213,025

For every \$1 FC increase, \$3.22 sales increase is needed for same Net Profit.

This chart reflects the amount of sales increase that will be needed for various changes in the fixed cost levels in your company.

Net Profit Impact with Variable Cost % Change



Current Contribution Margin = 31.1%

Every 1% VC decrease will result in \$30,768 of an annual Net Profit increase, correspondingly, every 1% VC increase will result in \$30,768 of an annual Net Profit decrease.

This chart shows the change in net profit resulting from selected % decrease in your variable cost.





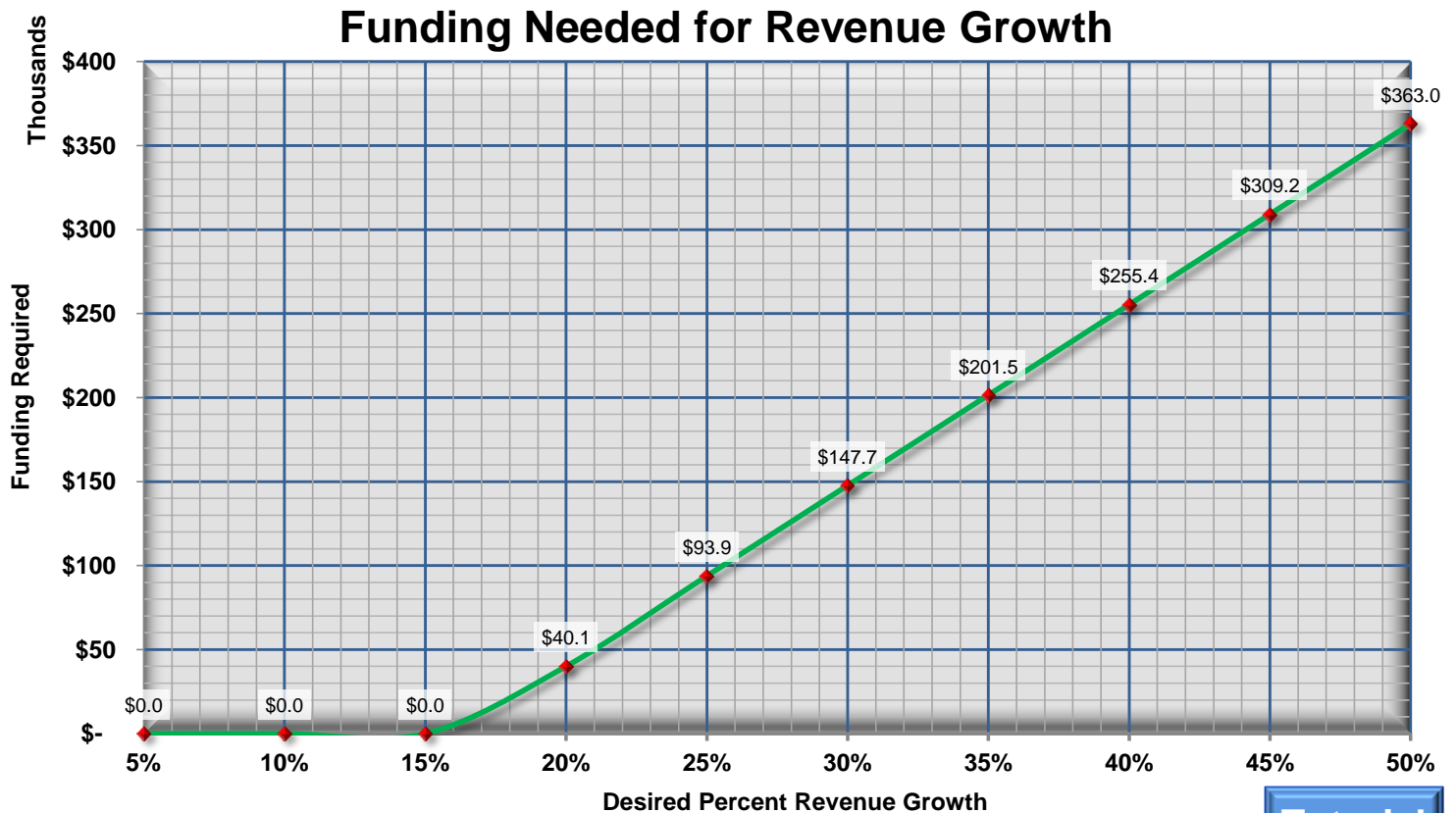
Funding Revenue Growth

Hello Telephone Co



Current			Growth		
Revenue / Sales		Net Profit	Growth →	25%	50%
\$	4,465,000	3.9%	New Revenue	\$ 5,581,250	\$ 6,697,500
		% of Sales			
	Cash	\$25,768 0.6%	→	\$ 32,210	\$ 38,652
+	Accounts Receivable	\$928,333 20.8%	→	\$ 1,160,417	\$ 1,392,500
+	Inventory	\$614,667 13.8%	→	\$ 768,333	\$ 922,000
=	Total Current Assets	\$1,568,768	Calculated	\$ 1,960,960	\$ 2,353,152
+	Equipment	\$299,091 6.7%	→	\$ 373,864	\$ 448,637
+	Land/Building	\$415,000	→	\$ 415,000	\$ 415,000
=	Total Fixed Assets	\$714,091	Calculated	\$ 788,864	\$ 863,637
=	Total Assets	\$2,282,859	Calculated	\$ 2,749,824	\$ 3,216,789
=	Total Liabilities & Equity	\$2,282,859		\$ 2,749,824	\$ 3,216,789
-	Net Worth	\$1,038,818	New Equity	\$ 1,257,850	\$ 1,301,656
=	Total Liabilities	\$1,244,041	Calculated	\$1,491,974	\$1,915,132
-	Long-Term Liabilities	\$627,859	→	\$ 627,859	\$ 627,859
=	Total Current Liabilities	\$616,182	Calculated	\$ 864,115	\$ 1,287,274
-	Accruals	\$354,515 7.9%	→	\$ 443,144	\$ 531,773
-	Accounts Payable	\$261,667 5.9%	→	\$ 327,083	\$ 392,500
=	Notes Payable		Funding Needed	\$ 93,888	\$ 363,001

$$\text{New Equity} = \text{Old Equity} + (\text{New Sales} \times \text{Net Profit} \%)$$



Note: Current Balance Sheet Accounts are last 3 month average.

Tutorial



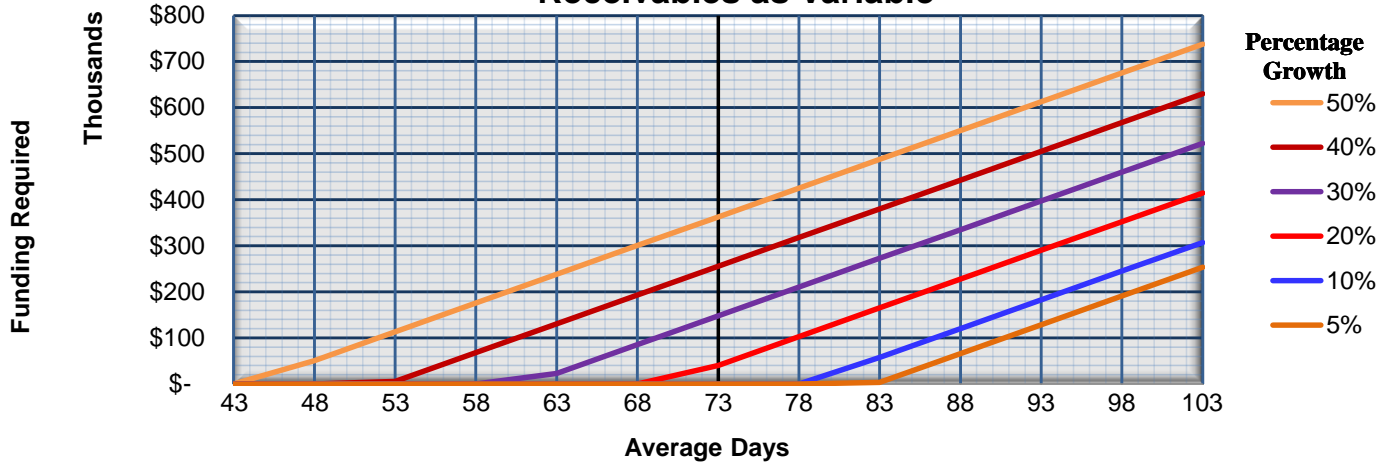
Funding Revenue Growth

Variable Impacts on Funding Requirements

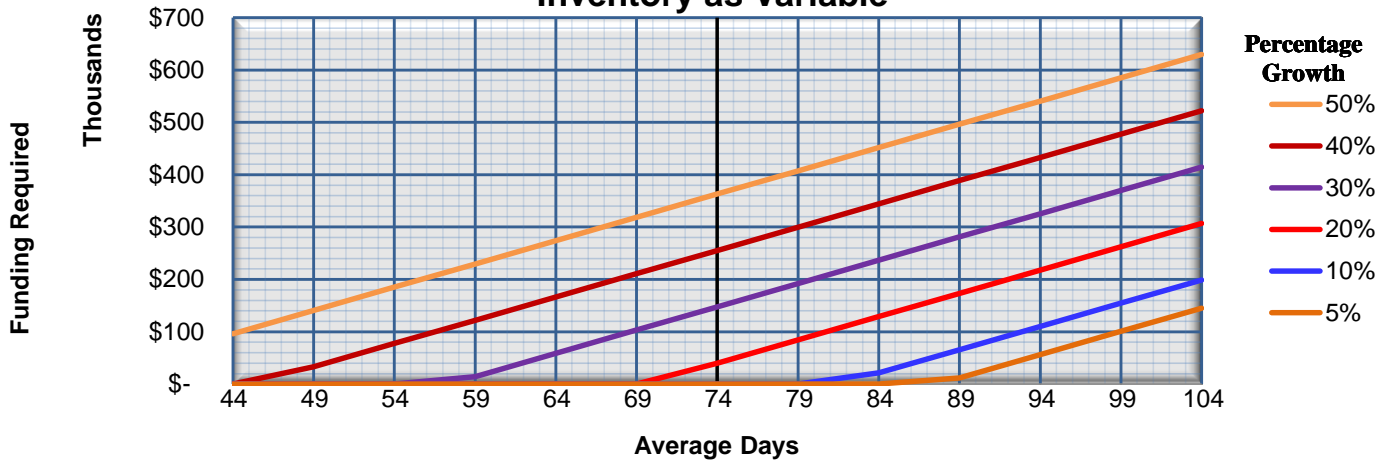
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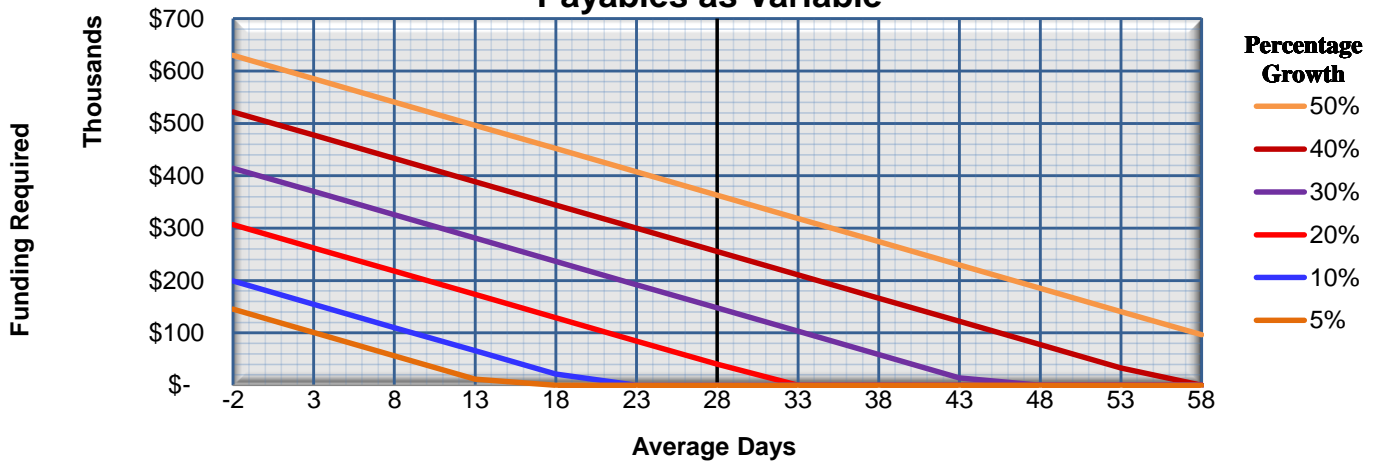
Receivables as Variable



Inventory as Variable



Payables as Variable



These charts illustrate how the Funding Needed changes for your company when some of the Assets (Receivables & Inventory) or Liabilities (Payables) are changed to show the impact at various Growth levels. The X-axis represents average days with the center being your company's current average for that metric.





Valuation - EBITDA Method

Hello Telephone Co

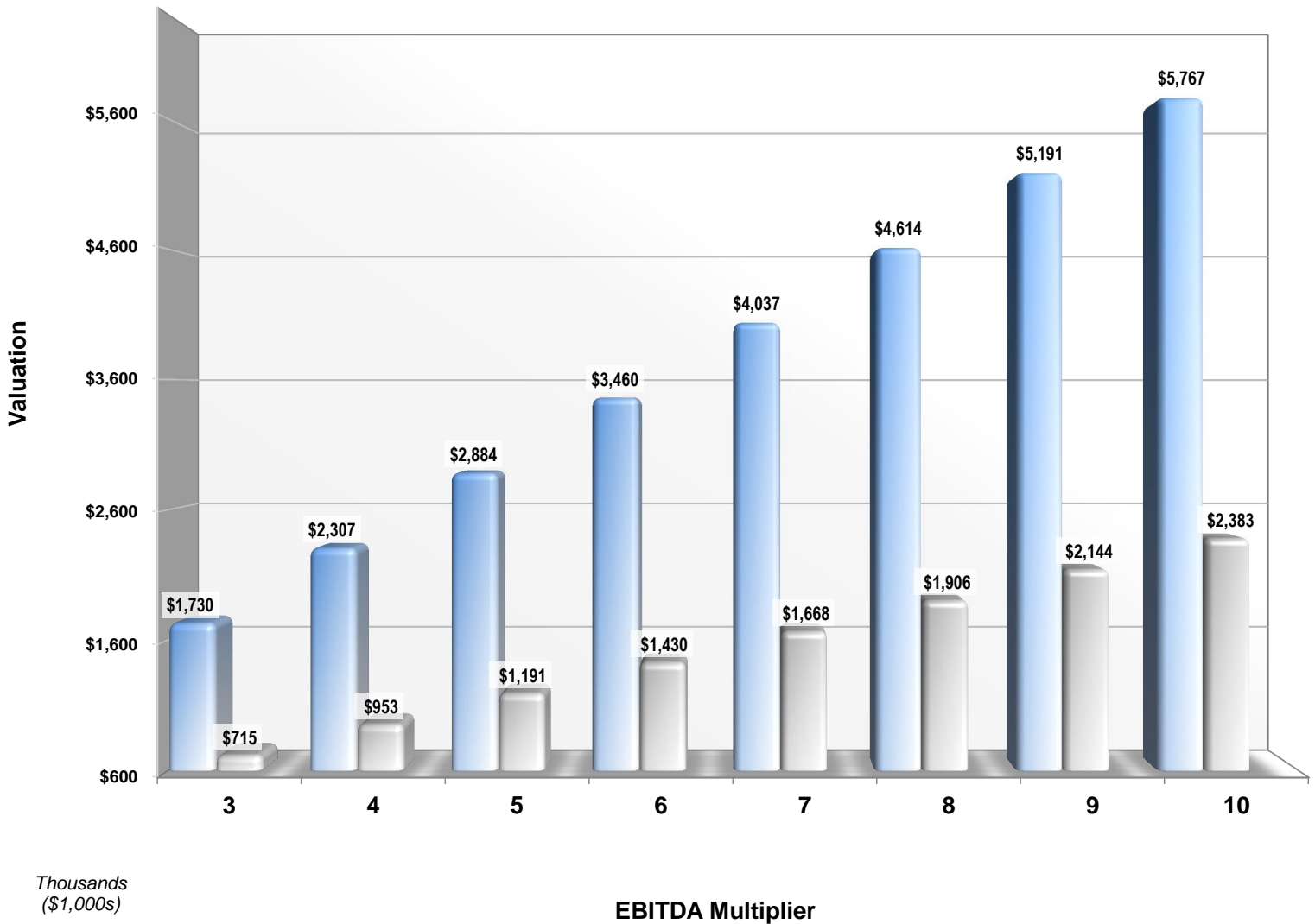


Net Profit	
Current	3.9%
Top 10% Industry	9.5%

EBITDA	
Current	\$ 238,250
Projected @ Top 10% Industry*	\$ 576,742

Current Valuation vs at Industry Top 10% Net Profit

- Estimated Valuation @ Top 10% of Industry Net Profit performance
- Valuation @ Current EBITDA & Net Profit



*Note: This EBITDA estimate scales the company's current EBITDA based on their Net Profit against the top 10% Net Profit of the industry's NAICS code. This is only an estimate as the scaling of Interest, Taxes, Depreciation, and Amortization may not be linear.



Balance Sheet



Hello Telephone Co

Units: \$1,000 (\$Thousands)

	Date												
	Ending Period 1	Ending Period 2	Ending Period 3	Ending Period 4	Ending Period 5	Ending Period 6	Ending Period 7	Ending Period 8	Ending Period 9	Ending Period 10	Ending Period 11	Ending Period 12	Ending Period 13
	01/31/13	02/28/13	03/31/13	04/30/13	05/31/13	06/30/13	07/31/13	08/31/13	09/30/13	10/31/13	11/30/13	12/31/13	01/31/14
ASSETS													
Cash	\$211.4	\$10.0	\$136.1	\$12.5	\$15.8	\$65.1	\$31.3	\$6.9	\$12.8	\$23.9	\$10.8	\$52.8	\$13.8
Accounts Receivable	\$850.0	\$973.6	\$1,000.0	\$1,065.0	\$1,000.1	\$1,005.0	\$1,105.0	\$1,015.0	\$1,005.0	\$1,010.0	\$1,035.0	\$900.0	\$850.0
Inventory	\$462.0	\$523.0	\$467.8	\$554.8	\$677.0	\$544.0	\$557.8	\$643.4	\$607.5	\$554.0	\$555.0	\$639.0	\$650.0
Notes Receivable Trade	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Investments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Operating Assets	\$9.3	\$8.5	\$7.7	\$10.0	\$24.3	\$27.5	\$26.7	\$28.2	\$28.5	\$27.7	\$26.9	\$20.0	\$29.3
Total Current Assets	\$1,532.7	\$1,515.1	\$1,611.6	\$1,642.3	\$1,717.2	\$1,641.6	\$1,720.7	\$1,693.5	\$1,653.8	\$1,615.6	\$1,627.6	\$1,611.8	\$1,543.0
Gross Fixed Assets	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0	\$840.0
Accumulated Depreciation	(\$70.9)	(\$75.9)	(\$80.9)	(\$85.9)	(\$90.9)	(\$95.9)	(\$100.9)	(\$105.9)	(\$110.9)	(\$115.9)	(\$120.9)	(\$125.9)	(\$130.9)
Fixed Assets (net)	\$769.1	\$764.1	\$759.1	\$754.1	\$749.1	\$744.1	\$739.1	\$734.1	\$729.1	\$724.1	\$719.1	\$714.1	\$709.1
Total Assets	\$2,301.8	\$2,279.2	\$2,370.6	\$2,396.4	\$2,466.3	\$2,385.7	\$2,459.8	\$2,427.6	\$2,382.9	\$2,339.7	\$2,346.7	\$2,325.8	\$2,252.1
LIABILITIES & NET WORTH													
Notes Payable - bank	\$340.0	\$350.0	\$450.0	\$350.0	\$350.0	\$450.0	\$480.0	\$350.0	\$425.0	\$350.0	\$350.0	\$350.0	\$350.0
Accounts Payable - trade	\$252.0	\$187.0	\$180.0	\$300.0	\$350.0	\$174.0	\$243.8	\$360.0	\$250.0	\$260.0	\$275.0	\$260.0	\$250.0
Other Operating Liabilities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.6	\$3.6	\$3.8	\$3.5	\$3.4	\$5.0	\$3.3
Tax Due	\$0.2	\$0.0	\$0.0	\$0.6	\$0.1	\$0.1	\$0.3	\$0.5	\$0.1	\$0.3	\$0.3	\$0.5	\$1.0
Non Operating Liabilities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Current Liabilities	\$592.2	\$537.0	\$630.0	\$650.6	\$700.1	\$624.1	\$727.7	\$714.1	\$678.9	\$613.8	\$628.7	\$615.5	\$604.3
Long-Term Debt	\$784.0	\$768.3	\$753.0	\$737.9	\$723.1	\$708.7	\$694.5	\$680.6	\$667.0	\$653.7	\$640.6	\$627.8	\$615.2
Total Long-Term Liabilities	\$784.0	\$768.3	\$753.0	\$737.9	\$723.1	\$708.7	\$694.5	\$680.6	\$667.0	\$653.7	\$640.6	\$627.8	\$615.2
Total Liabilities	\$1,376.2	\$1,305.3	\$1,383.0	\$1,388.5	\$1,423.2	\$1,332.7	\$1,422.2	\$1,394.8	\$1,345.9	\$1,267.5	\$1,269.3	\$1,243.3	\$1,219.5
Total Equity	\$925.7	\$973.8	\$987.7	\$1,007.9	\$1,043.1	\$1,052.9	\$1,037.6	\$1,032.8	\$1,037.0	\$1,072.2	\$1,077.4	\$1,082.6	\$1,082.6
Net Worth	\$925.7	\$973.8	\$987.7	\$1,007.9	\$1,043.1	\$1,052.9	\$1,037.6	\$1,032.8	\$1,037.0	\$1,072.2	\$1,077.4	\$1,082.6	\$1,032.6
Total Liabilities + Net Worth	\$2,301.8	\$2,279.2	\$2,370.6	\$2,396.4	\$2,466.3	\$2,385.7	\$2,459.8	\$2,427.6	\$2,382.9	\$2,339.7	\$2,346.7	\$2,325.8	\$2,252.1



Income Statement



Hello Telephone Co

Date

Units: \$1,000 (\$Thousands)

	Ending Period 1	Ending Period 2	Ending Period 3	Ending Period 4	Ending Period 5	Ending Period 6	Ending Period 7	Ending Period 8	Ending Period 9	Ending Period 10	Ending Period 11	Ending Period 12	Ending Period 13
	01/31/13	02/28/13	03/31/13	04/30/13	05/31/13	06/30/13	07/31/13	08/31/13	09/30/13	10/31/13	11/30/13	12/31/13	01/31/14
Sales	\$350.0	\$360.0	\$340.0	\$300.0	\$425.0	\$490.0	\$290.0	\$325.0	\$450.0	\$360.0	\$400.0	\$375.0	\$350.0
COGS or COS*	\$210.0	\$252.0	\$187.0	\$180.0	\$300.0	\$350.0	\$174.0	\$243.8	\$340.0	\$250.0	\$260.0	\$275.0	\$265.0
Gross Profit	\$140.0	\$108.0	\$153.0	\$120.0	\$125.0	\$140.0	\$116.0	\$81.3	\$110.0	\$110.0	\$140.0	\$100.0	\$85.0
Expenses													
Marketing, Sales, G&A	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$90.0	\$90.0	\$100.0	\$100.0	\$90.0	\$80.0
R&D	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Depreciation	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non Operating	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Expenses	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$90.0	\$90.0	\$100.0	\$100.0	\$90.0	\$80.0
Operating Profit	\$40.0	\$8.0	\$53.0	\$20.0	\$25.0	\$40.0	\$16.0	(\$8.8)	\$20.0	\$10.0	\$40.0	\$10.0	\$5.0
Other Income (Expense)													
Interest	\$4.8	\$4.7	\$4.8	\$6.2	\$4.8	\$4.8	\$6.1	\$6.5	\$4.8	\$5.8	\$4.8	\$4.8	\$4.8
Net Profit Before Taxes	\$35.2	\$3.3	\$48.2	\$13.8	\$20.2	\$35.2	\$9.9	(\$15.3)	\$15.2	\$4.2	\$35.2	\$5.2	\$0.2
Tax	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Profit After Tax	\$35.2	\$3.3	\$48.2	\$13.8	\$20.2	\$35.2	\$9.9	(\$15.3)	\$15.2	\$4.2	\$35.2	\$5.2	\$0.2

Note: COGS=Costs of Goods Sold (Product Business); COS=Cost of Sales (Service Business)