




Executive Action Report

For the month ending January 31, 2014

(and the prior thirteen months)

Hello Telephone Co

North American Industry Classification System (NAICS) = **521210** 

Based on:



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 Profit Gap 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 Profit Gap found from your QuickBooks® data in the areas of Cash Lost, Cash Required, and Profitability. Please look for additional details in the enclosed reports. We strongly encourage you to review your financial information on at least a monthly basis. Also, most Profit Gap reports show substantial opportunity for improvement. Start with one key area and prove that you can make meaningful improvements (we know you can!) 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,

Support Team
FinancialSoft, Inc.





THE SCORECARD



Hello Telephone Co		Two (2) Months Ago	Last Month	Current Month	Trend	Your Goal	Actual Annualized	Industry Standard	Calculations For Current Month
Period Ending 01/31/2014		11/30/13	12/31/13	1/31/14				<div> <div>Top</div> <div>10% 25% Median 25% 10% Bottom</div> </div>	

BALANCE SHEET RATIOS: Stability (Staying Power)

1	Current	?	Current Assets							1,543,042
			Current Liabilities	2.6	2.6	2.6	▼	2.9	2.5	604,320
2	Quick	?	Cash + Accts. Rev.				▼			863,777
			Current Liabilities	1.7	1.5	1.4	▼	2.0	1.6	604,320
3	Debt-to-Worth	?	Total Liabilities				▼			1,244,041
			Net Worth	1.2	1.2	1.2	▼	0.8	1.3	1,064,194

INCOME STATEMENT RATIOS: Profitability (Earning Power)

4	Gross Margin	?	Gross Profit				▼			85,000
			Sales	35.0%	26.7%	24.3%	▼	45.0%	31.1%	350,000
5	Net Margin	?	Net Profit Before Tax				▼			-20,000
			Sales	8.8%	-1.3%	-5.7%	▼	10.0%	2.9%	350,000

ASSET MANAGEMENT RATIOS: Overall Efficiency Ratios

6	Sales to Assets	?	Sales				▲			1,125,000 X 4
			Total Assets	2.1	1.9	1.9	▲	2.0	2.0	2,308,235
7	Return on Assets	?	Net Profit Before Tax				▼			10,000 X 4
			Total Assets	7.6%	6.0%	1.7%	▼	10.0%	6%	2,308,235
8	Return on Investment	?	Net Profit Before Tax				▼			10,000 X 4
			Net Worth	16.9%	13.0%	3.8%	▼	14.5%	12%	1,064,194

9	Inventory Turnover	?	Cost of Goods Sold				▼			265,000 X 12
			Inventory	5.6	5.2	4.9	▼	12.2	5.3	650,000
10	Inventory Turn-Days	?	365				▲			365
			Inventory Turnover	64	70	74	▲	30	68	4.9
11	Accounts Receivable Turnover	?	Sales				▼			350,000 X 12
			Accounts Receivable	4.6	5.0	4.9	▼	7.3	4.5	850,000
12	Accounts Receivable Turn-Days	?	365				▲			365
			Accts. Rec. Turnover	78	72	73	▲	50	80	4.9
13	Accounts Payable Turnover	?	Cost of Goods Sold				▲			265,000 X 12
			Accounts Payable	11.3	12.7	12.7	▲	6.1	11.9	250,000
14	Average Payment Period-Days	?	365				▼			365
			Accts. Payable Turnover	32	28	28	▼	60	30	12.7

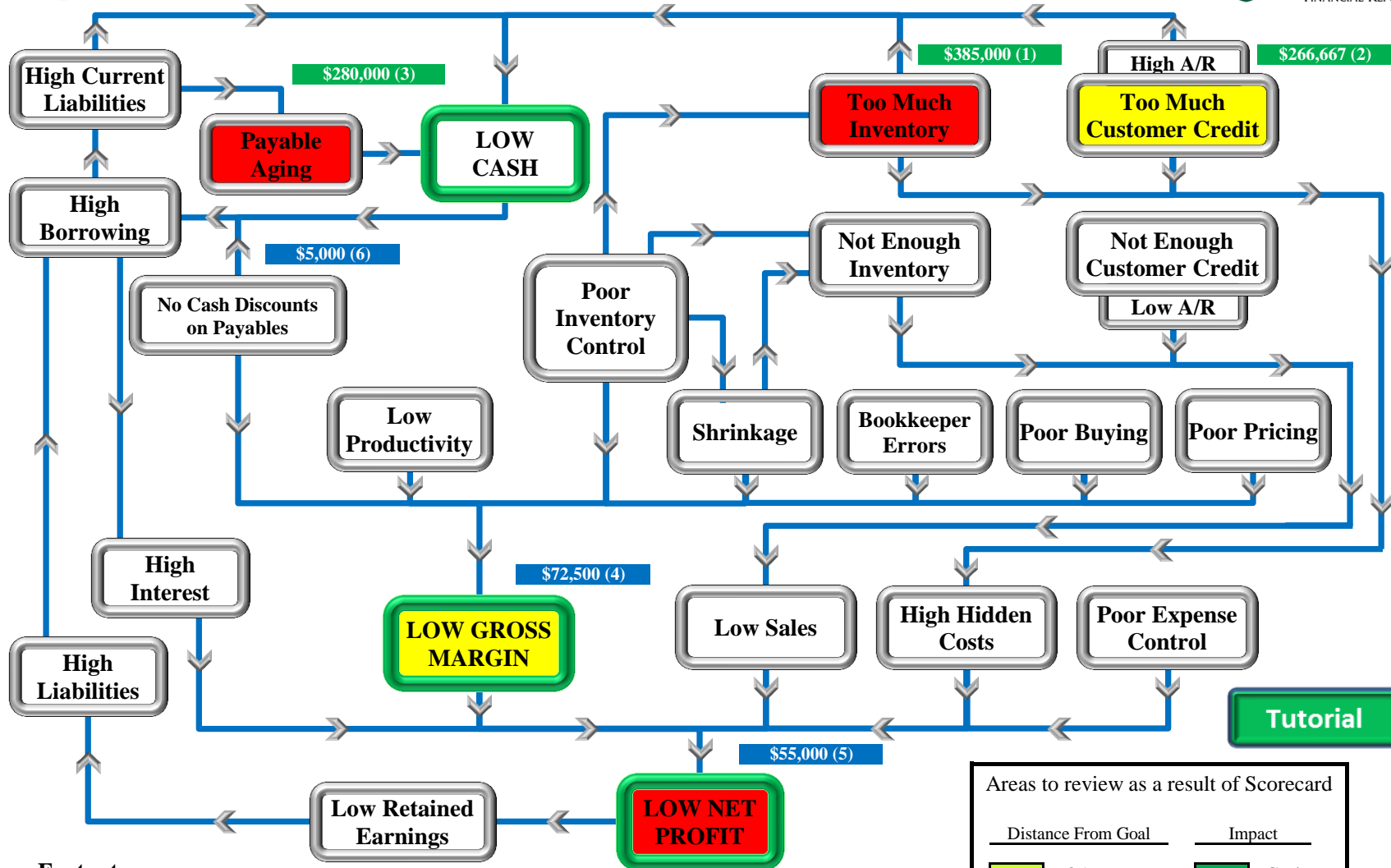
Note: NA designates the Metric is not of value in this company

Scorecard
Tutorial

Goal Setting
Tutorial






Better than Goal ■
 ≤ 25% away from Goal ■
 Greater than 25% from Goal ■
 Greater than 50% from Goal ■

Based on:
PROFIT MASTERY



Footnotes

- (1) \$385,000 Cash Impact because of too much Inventory.
- (2) \$266,667 Cash Impact because of too much Customer Credit.
- (3) \$280,000 Cash Impact that could be saved with longer payment terms.
- (4) \$72,500 Profit Impact over the time period if the goal was met.
- (5) \$55,000 Profit Impact over the time period if the goal was met.
- (6) \$5,000 Profit Impact on 2% Payable Discounts.

Areas to review as a result of Scorecard	
<u>Distance From Goal</u>	<u>Impact</u>
 <25%	 Cash
 25% to <50%	 Profit
 ≥50%	



Profit Mastery Assessment



Hello Telephone Co

Period ending 01-31-2014

Cash and Profit Impact			
Issue	Cash Lost	Cash Required	Profit
Receivables	\$266,667		
Inventory	\$385,000		
Payables	\$280,000		
Payable Discounts			\$5,000
Gross Margin			\$72,500
Net Margin			\$55,000
Total	\$931,667		\$132,500

Sensitivity Analysis	
Metric	Impact
<i>Cash Conversion Metrics</i>	<i>1-Day Sensitivity*</i>
Inventory Turn-Days =	\$8,889 per day
Accounts Receivable Turn-Days =	\$12,500 per day
Average Payable Payment Period =	\$8,889 per day
<i>Margin Metrics (Month)</i>	<i>1% Margin Sensitivity**</i>
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.

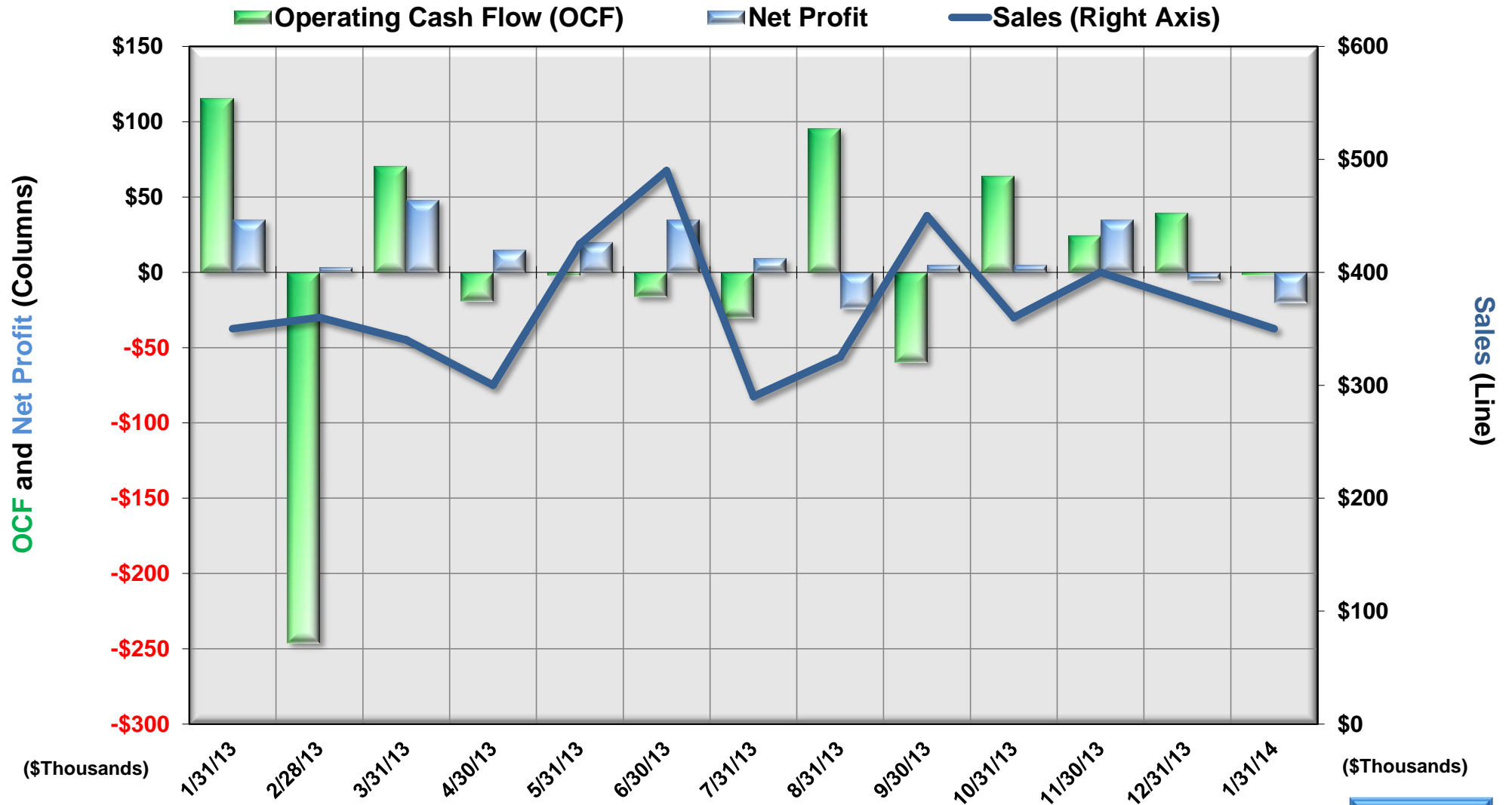




Trend Chart

Sales, Net Profit & Operating Cash Flow

Hello Telephone Co



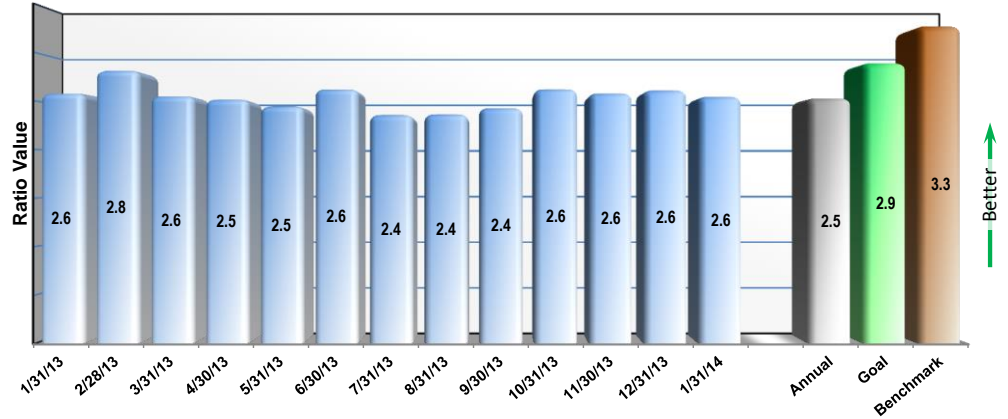
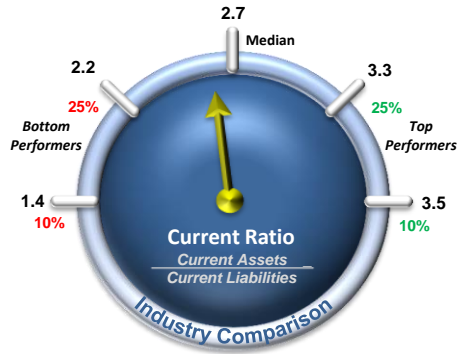
More Information



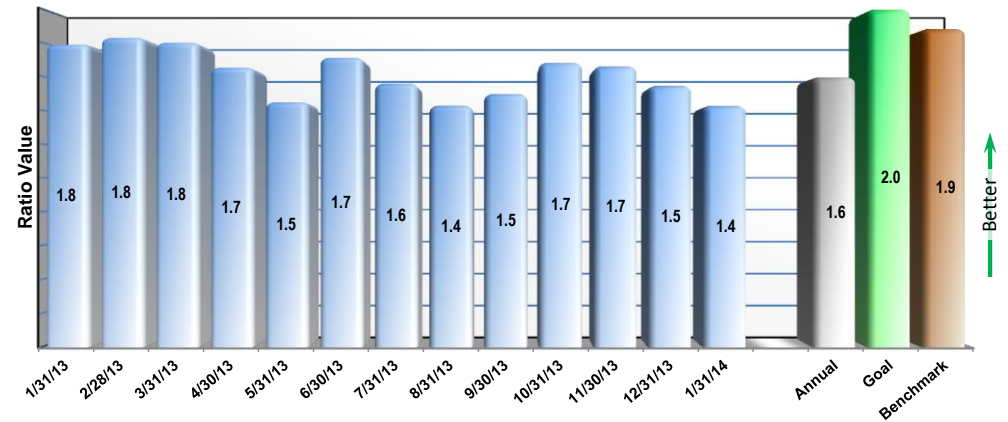
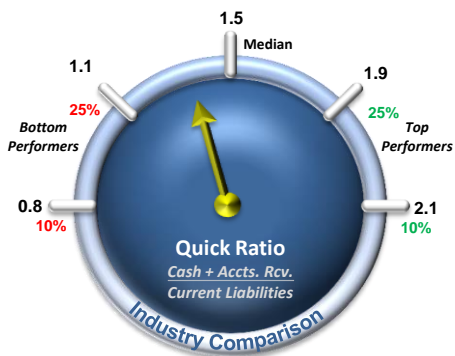
Trend Charts Balance Sheet Ratios *Hello Telephone Co*



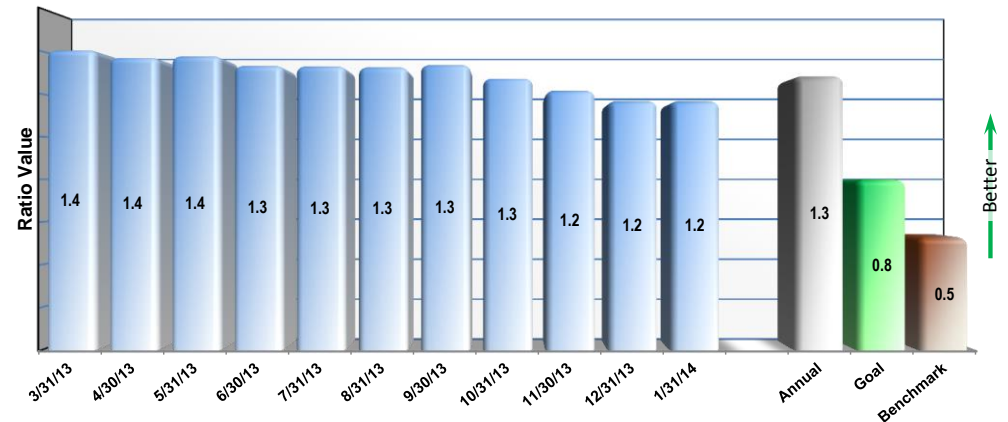
Current Ratio: *The ability to pay short term bills*



Quick Ratio: *Most Liquid Assets (Cash & Receivable) available to Pay Bills*



Debt to Net Worth: *What is owed compared to Net Worth*



NOTE: Benchmark in charts is set to Top 25% (Quartile) of this industry NACIS code: 521210

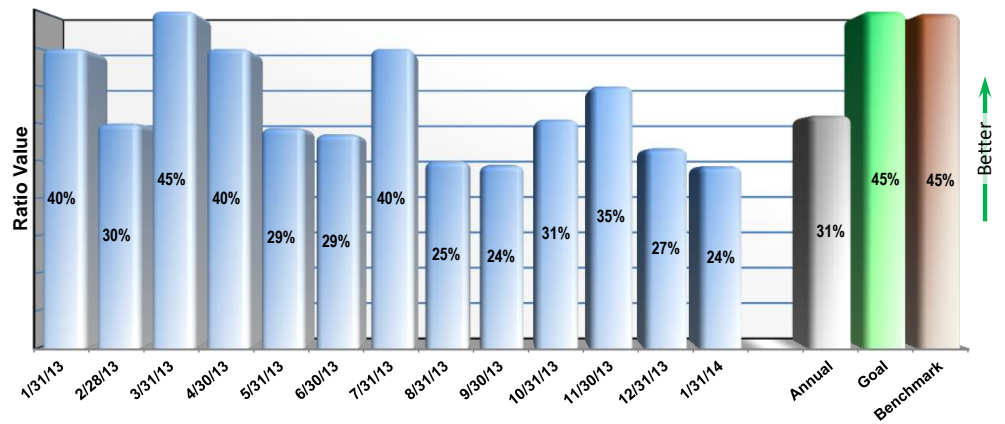


Trend Charts Income Statement Ratios



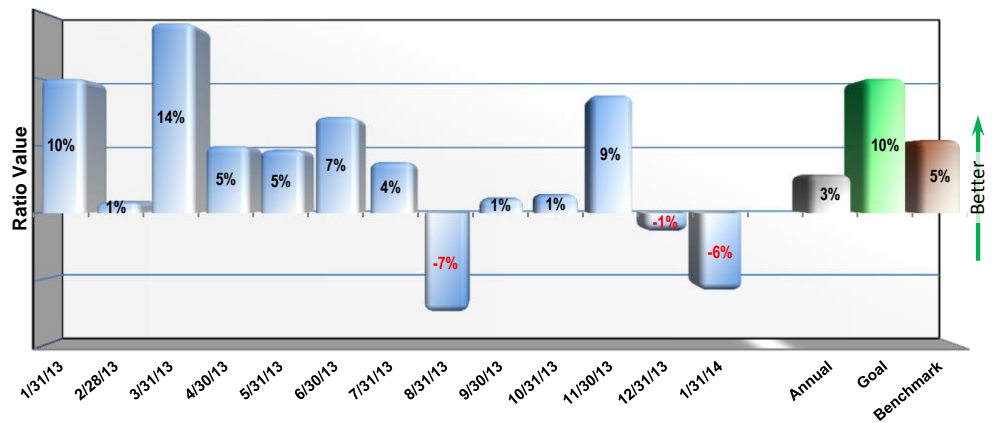
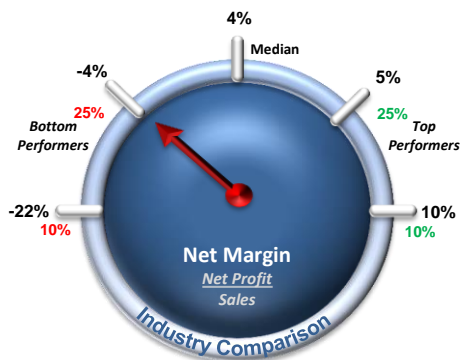
Hello Telephone Co

Gross Margin: *Revenue left over after costs of services and goods are subtracted*



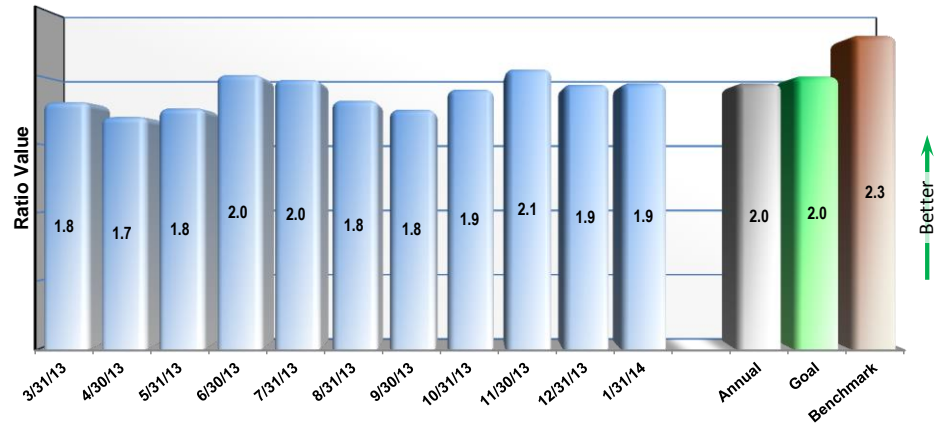
Performance to Goal: Gross Margin is 20.7% under the Goal of 45.0% with a negative \$72,500 Profit Impact over the time period.

Net Margin: *Percentage of revenue remaining after all operating costs, interest and taxes are paid*

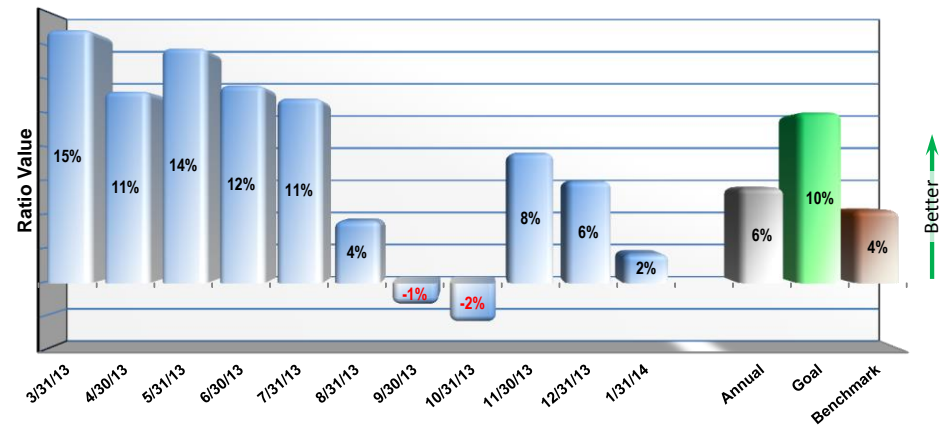


NOTE: Benchmark in charts is set to Top 25% (Quartile) of this industry NACIS code: 521210

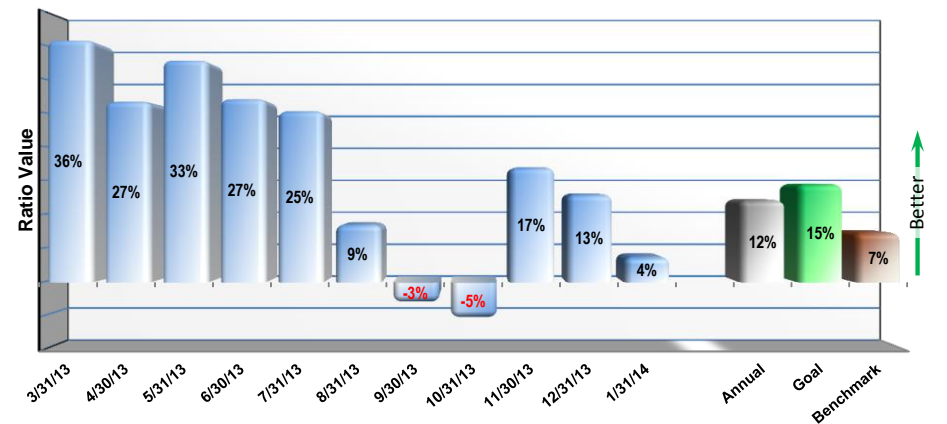
Sales to Assets: How efficiently are you using your assets to produce revenue



Return On Assets: Net income generated for each dollar of assets



Return On Investment: The efficiency of return on revenue invested into business



NOTE: Benchmark in charts is set to Top 25% (Quartile) of this industry NACIS code: 521210

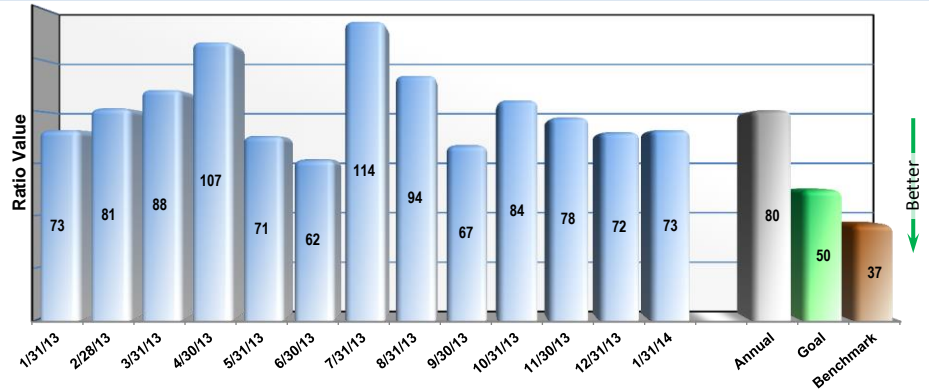
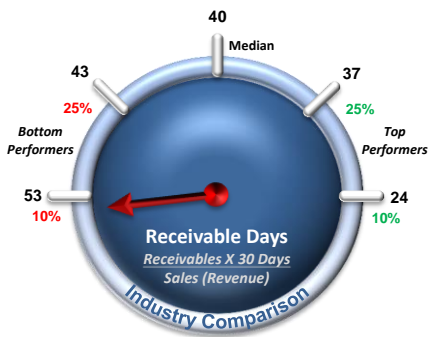


Trend Charts

Asset Management Ratios - Cash Conversion Cycle Elements Hello Telephone Co

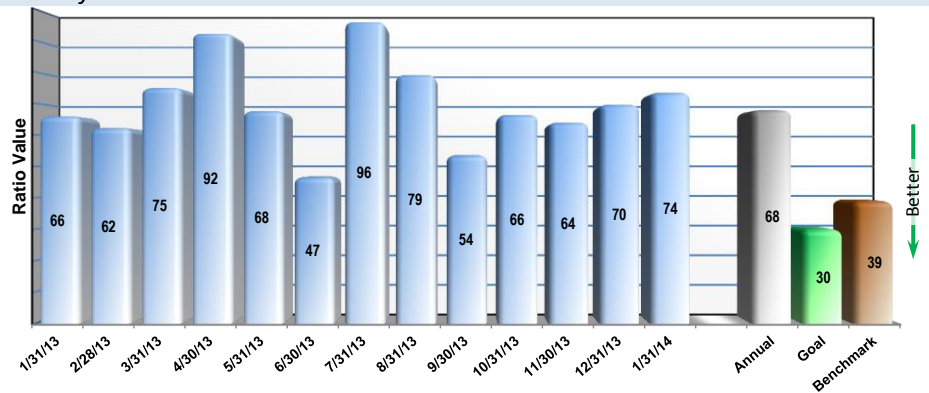
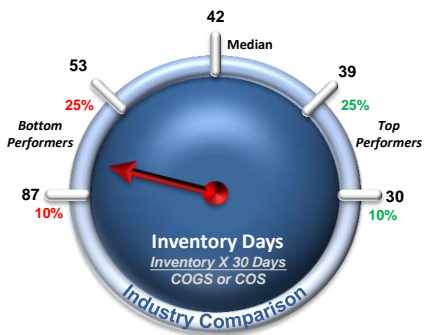


Receivable - Days: Average time customers take to pay



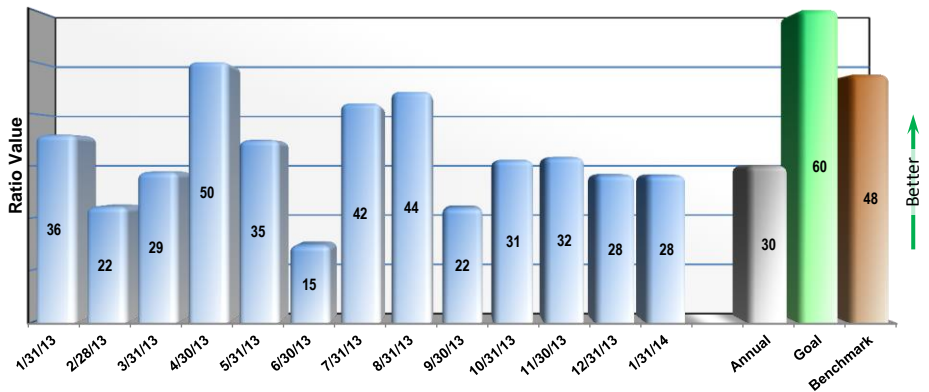
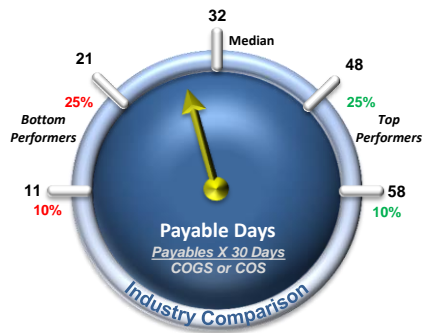
Performance to Goal: Accounts Receivable is 23 days over the Goal of 50 days with a \$266,667 negative cash impact.

Inventory - Days: Average days inventory remain in stock



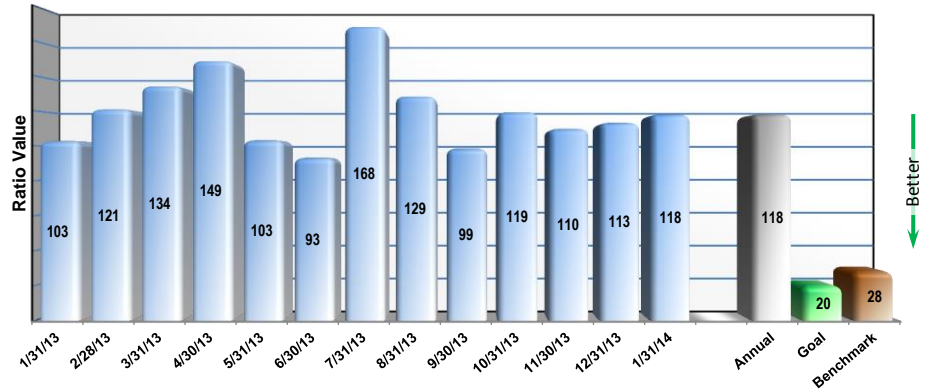
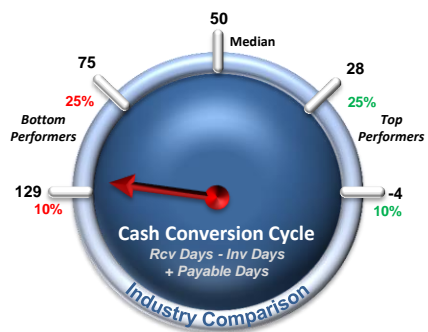
Performance to Goal: Inventory is 44 days over the Goal of 30 days with a \$385,000 negative cash impact.

Payable - Days: Average days to pay suppliers



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

Cash Conversion Cycle: Length of time to recapture revenue spent on inventory



Performance to Goal: The Cash Conversion Cycle is 118 days over the Goal of 20 days.

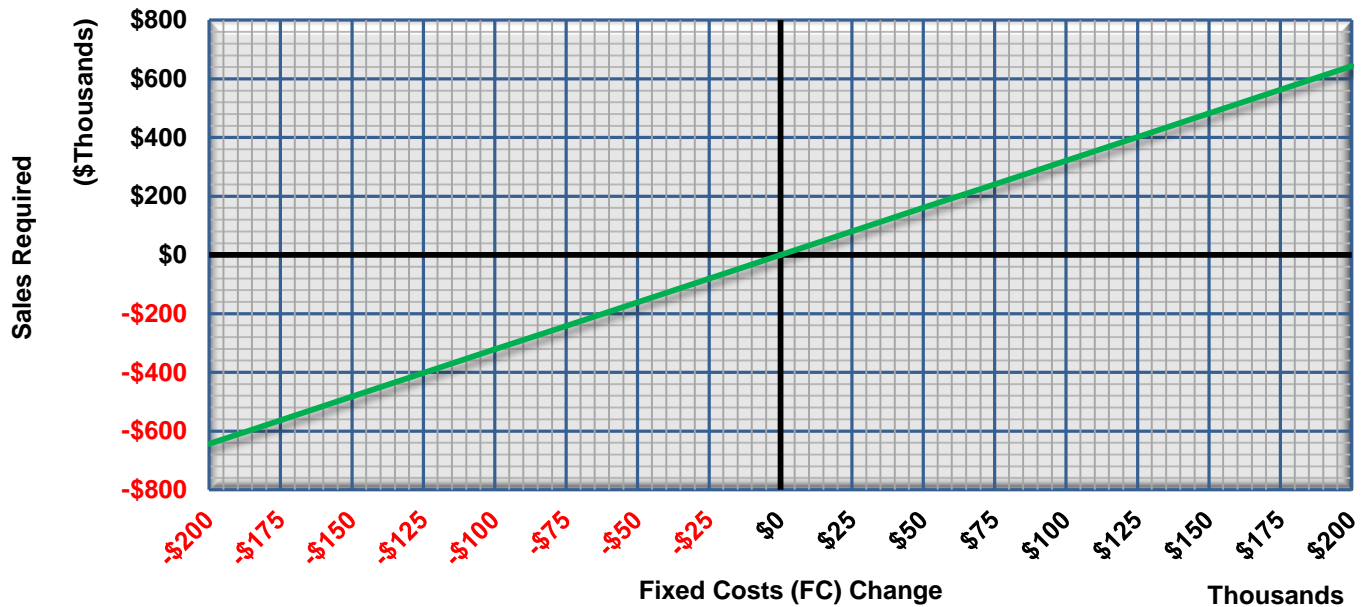


BREAK-EVEN ANALYSIS

Hello Telephone Co



Sales Required to Support Fixed Costs Changes



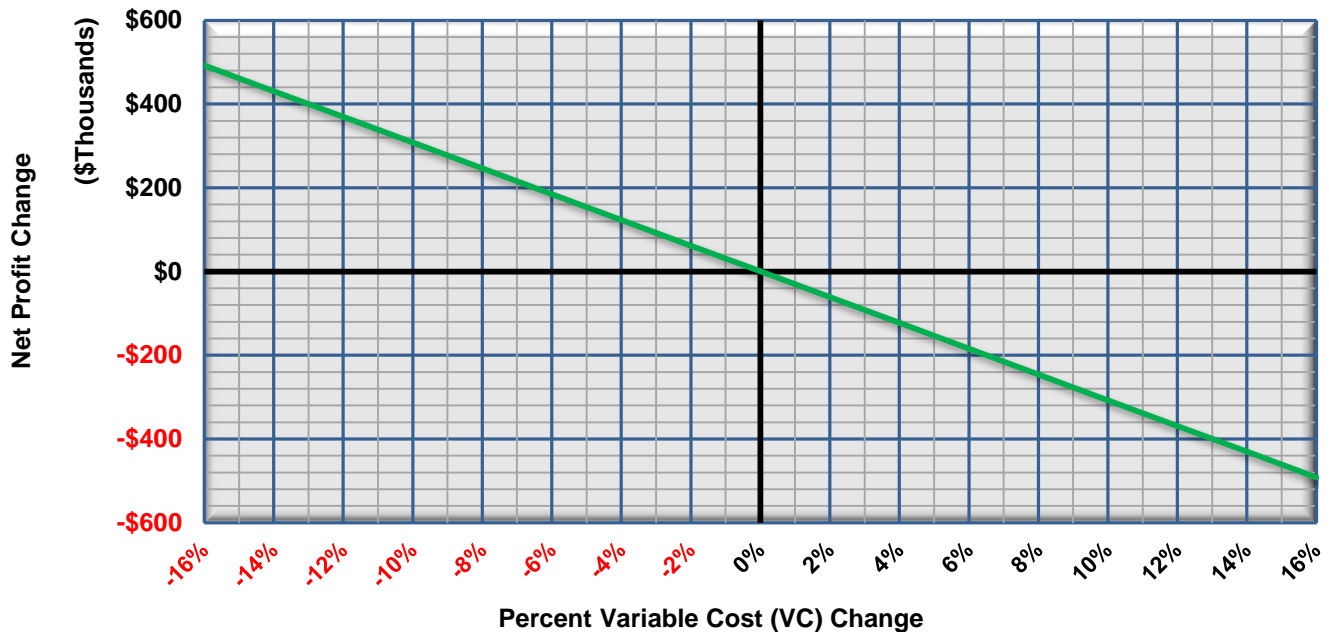
Current FC = \$1,260,000

Current Break-Even Sales = \$4,052,512

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.

Tutorial





FINANCIAL GAP ANALYSIS

Hello Telephone Co



Current

Sales		Net Profit	
\$		4,465,000	
		2.9%	

		% of Sales				% of Sales	
Cash	25,768	0.6%	Notes Payable			Financial Gap	
Accounts Receivable	928,333	20.8%	Accounts Payable	261,667	5.9%		
Inventory	614,667	13.8%	Accruals	354,515	7.9%		
Total Current Assets	1,568,768		Total Current Liabilities	616,182			
Equipment	299,091	6.7%	Long-Term Liabilities	627,859			
Land/Building	415,000		Total Liabilities	1,244,041			
Total Fixed Assets	714,091		Net Worth	1,038,818			
Total Assets	2,282,859		Total Liabilities & Net Worth	2,282,859			

Growth

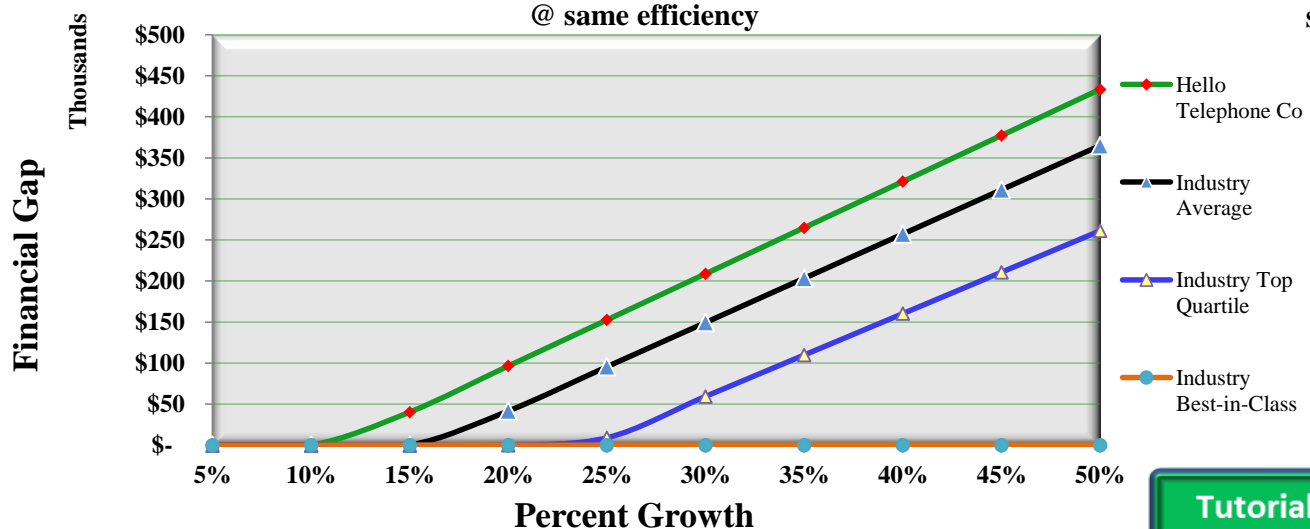
Sales		Percent Growth	
\$		5,581,250	
		25%	

New Net Worth = Old NW + (New Sales X Net Profit %)

		% of Sales				% of Sales	
Cash	32,210	0.6%	Notes Payable	152,607	Financial Gap		
Accounts Receivable	1,160,417	20.8%	Accounts Payable	327,083	5.9%		
Inventory	768,333	13.8%	Accruals	443,144	7.9%		
Total Current Assets	1,960,960		Total Current Liabilities	922,834			
Equipment	373,864	6.7%	Long-Term Liabilities	627,859			
Land/Building	415,000		Total Liabilities	1,550,693			
Total Fixed Assets	788,864		New Net Worth	1,199,131			
Total Assets	2,749,824		Total Liabilities & Net Worth	2,749,824			

Financial Gap Analysis

@ same efficiency



The top table labeled "Current" represents the company's most recent 12 month history for Sales and Net Profit. All the Assets (left column) and Liabilities (top half of right column) represent current month balances. The second table calculates the Financial Gap at a year-to-year 25% growth to illustrate the mathematics for such a growth rate. The bottom Chart shows the Financial Gap as it would appear if the desired annual growth varied from 5% to 50%, and as compared to your industry competitive bench marks of 50% (being the average), the upper Quartile (25%), and the best-in-class (Top 10%).

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

© 2015 FinancialSoft, Inc



Tutorial

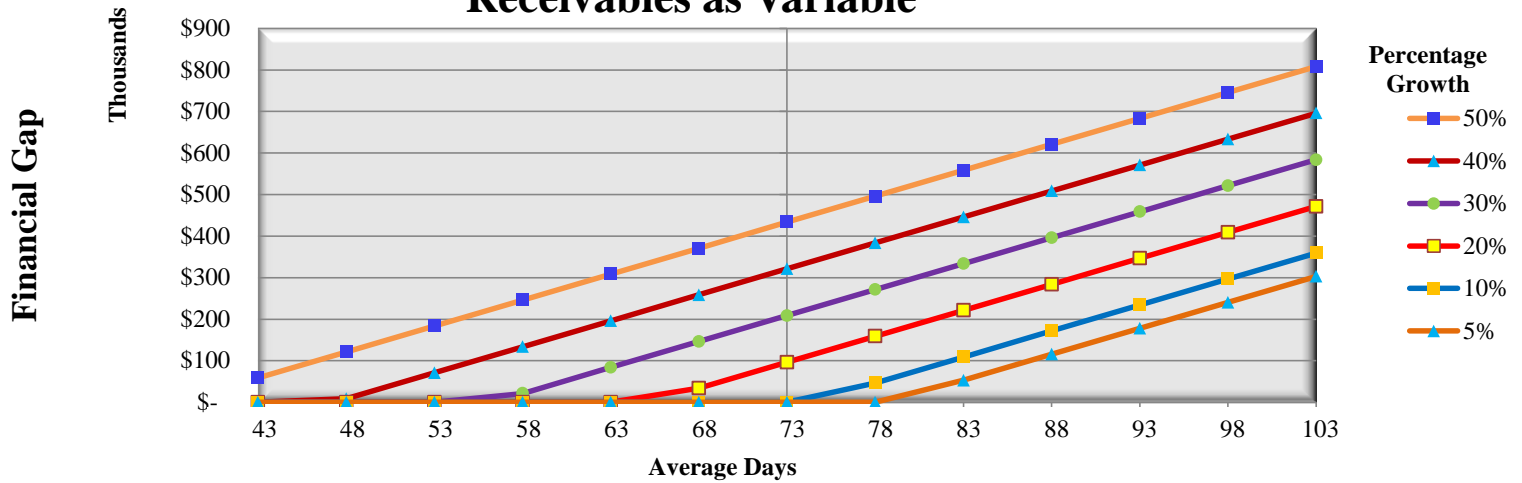


FINANCIAL GAP ANALYSIS

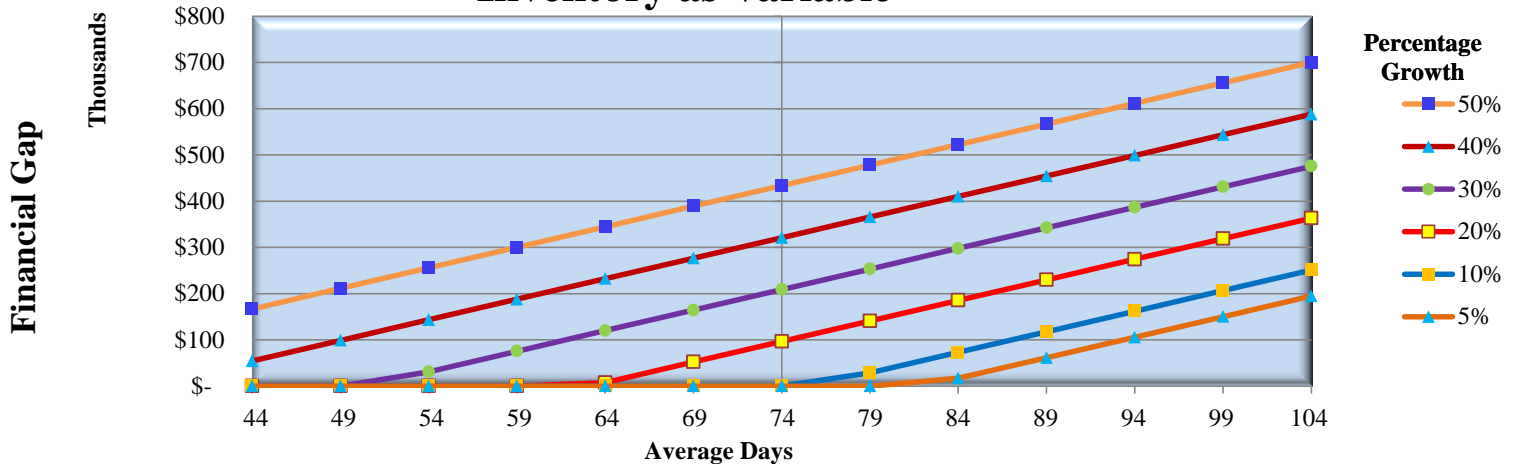
Hello Telephone Co



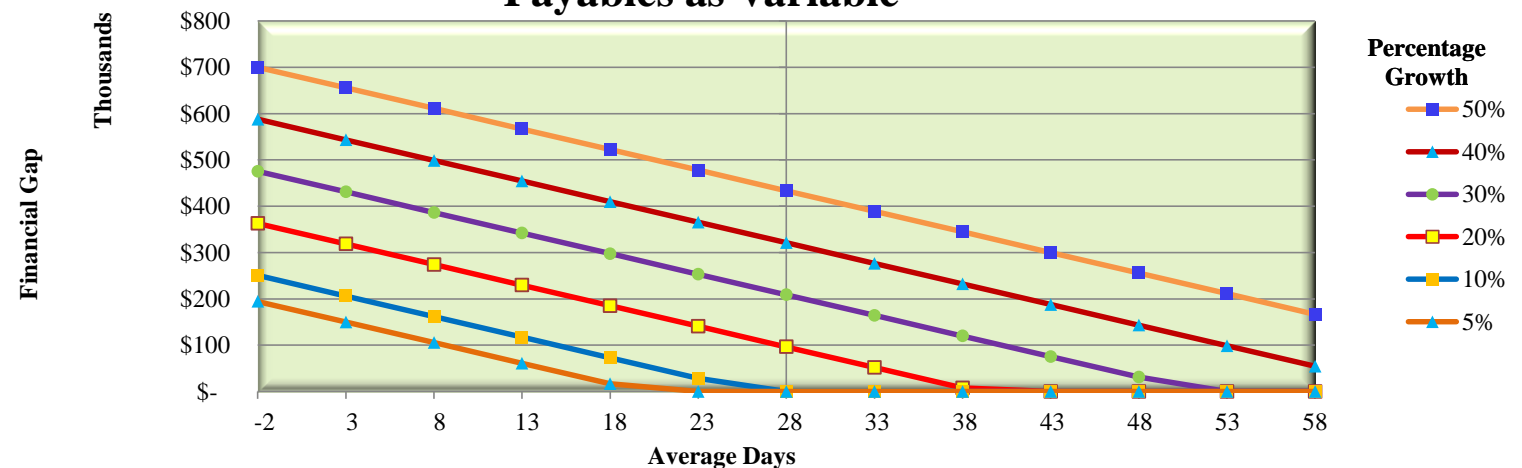
Receivables as Variable



Inventory as Variable



Payables as Variable



These charts illustrate how the Financial Gap 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.

Tutorial





Valuation - EBITDA Method

Hello Telephone Co



Net Profit	
Current	2.9%
Top 10% Industry	9.5%

EBITDA	
Current	\$ 128,250
Projected @ Top 10% Industry*	\$ 424,175

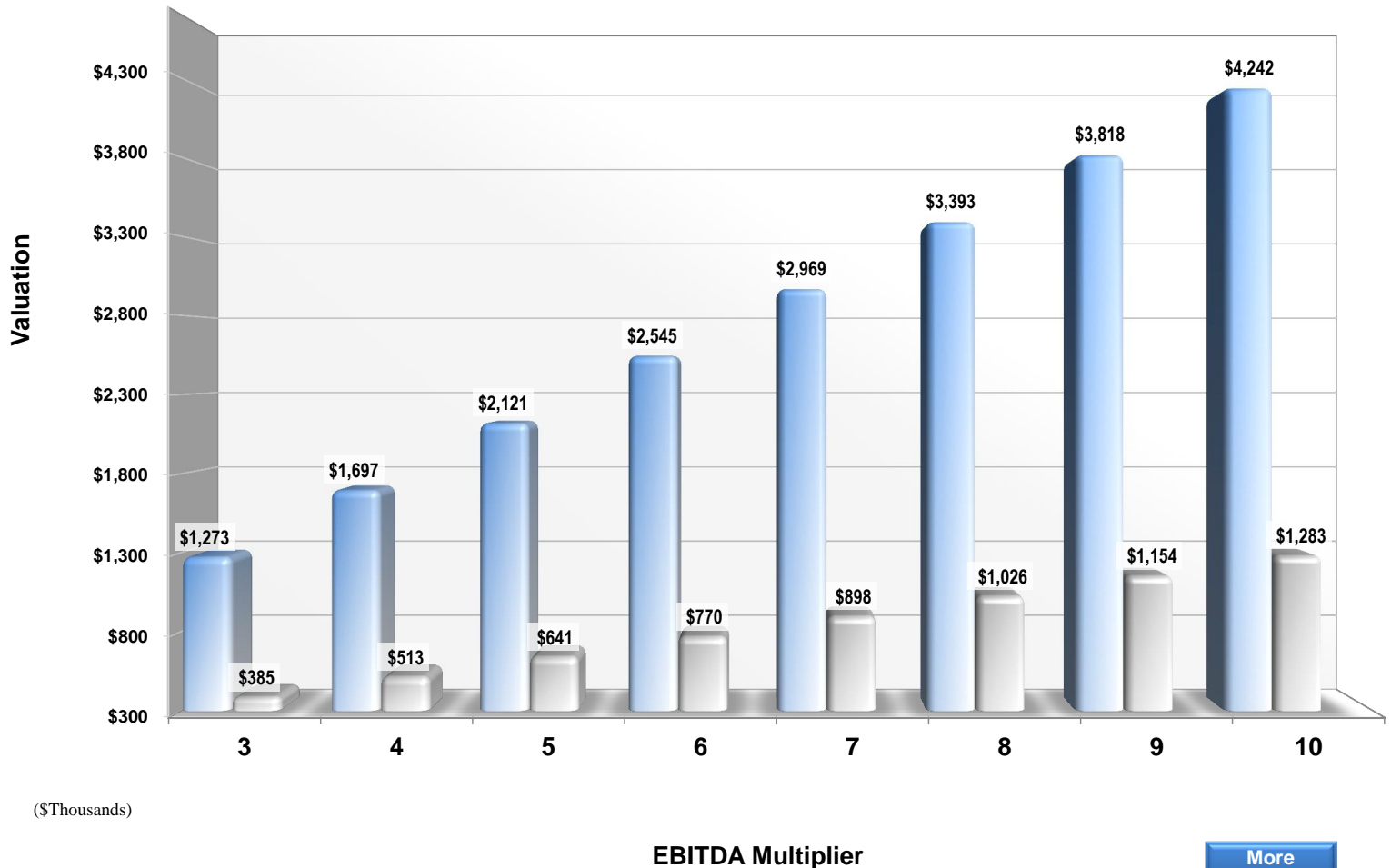
Current Valuation vs at Industry Top 10% Net Profit



Estimated Valuation @ Top 10% of Industry Net Profit performance



Valuation @ Current EBITDA & Net Profit



[More Information](#)

***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)

ASSETS

	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
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

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
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
Cost of Goods Sold	\$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	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
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	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
Total Expenses	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0
Operating Profit	\$35.0	\$3.0	\$48.0	\$15.0	\$20.0	\$35.0	\$11.0	(\$23.8)	\$5.0	\$5.0	\$35.0	(\$5.0)	(\$20.0)
Other Income/ (Expense)													
Interest	\$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 Before Taxes	\$35.0	\$3.0	\$48.0	\$15.0	\$20.0	\$35.0	\$11.0	(\$23.8)	\$5.0	\$5.0	\$35.0	(\$5.0)	(\$20.0)
Tax	\$0.2	(\$0.1)	\$0.0	\$0.1	\$0.0	\$0.0	\$1.8	\$0.0	\$0.1	\$0.0	\$0.2	\$0.0	\$0.0
Net Profit After Tax	\$34.8	\$3.1	\$48.0	\$14.9	\$20.0	\$35.0	\$9.2	(\$23.8)	\$4.9	\$5.0	\$34.9	(\$5.0)	(\$20.0)

