



Graduate School of Banking at LSU 2017

Course: Are all cash flows created
equal?

Course Objective

- Open discussions comparing traditional EBITDA cash flow to Uniform Commercial Analysis (UCA) cash flow
- Prefer class be open communication, informal discussion vs. lecture based
- Ask questions as we move through the material
- Learning is individual based – you'll get from it what you put into it – SUCCESS is up to you.

Homework follow-up

- Who spent too much time at Chimes last night?
- Any general questions about sources & uses?
- We'll look specifically at questions 3 – 5.

Cash Flow

- What is cash flow? The amount of cash that flows into and out of a company during an accounting period.
- Two questions to always ask:
 - Is this cash flow sustainable?
 - What are the implications short-term and long-term for the going concern?

MFA Spreads – constructing a cash flow statement

- In order to construct a cash flow statement for any given year, three pieces of information are required:
 - Previous year's balance sheet
 - Current year's balance sheet
 - Current year's income statement

Why two years of balance sheets?

MFA Spreads – bal sheet is point-in-time; inc stmt is period-of-time

- It is important to remember that a balance sheet is representative of only one day in time (statement date) but the income statement represents a period of time (accounting period). In order to calculate whether a balance sheet account has been a source or use over the course of a year, you must calculate the change in an account by subtracting the previous year's account balance from the current year's balance. In order to calculate the sources and uses for the income statement, the account total is transferred straight to the cash flow statement.
- Let's look at our spreads for understanding.

MFA Spreads – Balance Sheet Overview

- Balance sheet observations:
 - Looking at just the balance sheet...is Diversion CF a manufacturing company? Why or why not?
 - What is the liquidity position of Diversion CF at 12/31/16?
 - What is the total of Retained Earnings? What are your thoughts about that total...and should we loan money to Diversion CF?

MFA Spreads – Retained Earnings and Equity Section

- What kind of activities would cause a company's Retained Earnings to be negative?
- What else do you see taking place inside the Equity section of the balance sheet?
 - Look at paid in capital vs. preferred stock

MFA Spreads – Income Statement Overview

- Looking at all three years of the income statement; what do you immediately see?
- What is the 12/31/16 EBITDA?
- What is 12/31/16 debt service?
- What is the 12/31/16 DSC? Is this good?

MFA Spreads – UCA Cash Flow EBITDA vs. CADA

- Let's take a look at the 12/31/16 UCA cash flow...page 4 of the spreads
- What is CADA (Cash After Debt Amortization) for 12/31/16?
 - Is this good?
 - Why is this so different from EBITDA?
 - Is this good or bad for lenders?

MFA Spreads – Broad Categories

- Let's look at the broad categories associated with UCA Cash flow...pgs 4 & 5 of the spreads
 - Cash From Trading Activities
 - Cash After Operations
 - Impact of Debt Service & Dividends
 - Changes in Fixed Assets & Investments
 - Changes in Financing

MFA Spreads – Cash From Trading Activities

- Cash From Trading Activities
 - Cash Collected from Sales
 - Cash Paid to Suppliers
- Using the Sources & Uses info, let's look at the changes in balance sheet items.

MFA Spreads -- ?LSU as an identifier of Sources & Uses

	+	-
A	U	S
<u>L</u>	<u>S</u>	<u>U</u>

MFA Spreads – Change in A/R

- Change in A/R

A/R balance 12/31/16	\$7,977K
A/R balance 12/31/15	\$6,752K
Change in A/R	(\$1,225K)
*Asset increases is a USE of cash!	

MFA Spreads – Change in A/R

- Is A/R an Asset or Liability?
 - Did A/R increase or decrease?
 - Is this a source or use?
 - Was there a corresponding increase in Sales?
 - Where would you look to know?
 - What happened with DOH?
 - Why would DOH decrease if A/R increased?

MFA Spreads – Change in Bad Debt Reserve

- Change in Bad Debt Reserve

Bad Debt Res 12/31/16	\$567K
Bad Debt Res 12/31/15	\$352K
Change in Bad Debt Res	\$215K
	*SOURCE of cash as Bad Debt Reserve is a contra account

MFA Spreads – Change in Inventory

- Change in Inventory

Inv balance 12/31/16	\$16,150K
Inv balance 12/31/15	\$8,083K
Change in Inventory	(\$8,067K)

*Increase in Asset is USE of cash!

MFA Spreads – Change in Inventory

- Is Inventory an Asset or Liability?
 - Did Inventory increase or decrease?
 - Is this a source or use?
 - Was there a corresponding increase in Sales?
 - Where would you look to know?
 - What happened with DOH?
 - Is this increase in DOH good or bad?

MFA Spreads – Change in A/P

- Change in Accounts Payable

A/P at 12/31/16	\$5,557K
A/P at 12/31/15	\$3,057K
Change in A/P	\$2,500K

*Increase in Liability is SOURCE of cash!

MFA Spreads – Change in A/P

- Is A/P an Asset or Liability?
 - Did A/P increase or decrease?
 - Is this a source or use?
 - Was there a corresponding increase in COGS?
 - Where would you look to know?
 - What happened with DOH?
 - Is this change in DOH good or bad?

MFA Spreads – changes in w/c Overall

- Changes in Primary working capital accounts is (\$6,577)

Change in A/R	(\$1,225)	
Change in Bad Debt Res	\$215	
Change in "Net" A/R		(\$1,010)
Change in Inventory		(\$8,067)
Change in A/P		\$2,500
Change in w/c accounts		(\$6,577)

MFA Spreads

- Adjust the CADA by the changes in w/c position...
- With the addition of the current income tax line item, we arrive at a figure very close to EBITDA.

MFA Spreads

- Let's dig a little deeper into the numbers and see what we can determine...this analysis may lead us to some appropriate questions to ask our Borrower in order to better understand the cash flow of the company.

MFA Spreads

- Sales / Revenues
 - What are the two primary drivers of Sales / Revenue?
 - Volume
 - Prices
 - Example: C-Store operations
 - Why is volume & prices important to cash flow?

MFA Spreads

- A/R activity
 - Besides the changes in A/R, what else is important for us to analyze about A/R?
 - What impacts A/R days on hand?
- Inventory activity
 - Besides the changes in Inventory, what else is important for us to analyze about Inventory?
- A/P activity
 - Besides the changes in A/P, what other considerations should we have about Accounts Payable?

Cash Impact of Mgmt vs. Cash Impact of Growth

- The bottom section of page 8 of the spreads shows “Trading Account Management Summary” with two more specific delineations Cash Impact of Management & Cash Impact of Growth.
- Someone tell me what this means...what’s the difference between the two? How could we calculate these figures in order to explain it to our customers/clients?

Cash Impact of Mgmt vs. Cash Impact of Growth

- Cash Impact of Growth assumes the DOH stays static with the year prior...be careful, this may or may not be a good thing.
- Cash Impact of Management reflects changes in DOH...meaning levels changed disproportionate with changes in Sales or COGS.

Cash Impact of Mgmt vs. Cash Impact of Growth -- Inventory

12/31/15	12/31/16			
COGS \$32,729	COGS \$41,407	12/31/15 DOH 90.14	'16 Inv est-growth \$10,226	'16 Inv-actual \$16,150
/ 365 \$89.6685/day	/ 365 \$113.4438/day	X 2016 Inv/day \$113.4438	12/31/15 Inv \$8,083	'16 Inv-est growth \$10,226
Inventory \$8,083	Inventory \$16,150	'16 Inv est-growth \$10,226	Chg in Inv-growth (\$2,143) Inv increase = USE of cash	'16 Chg Inv-Mgmt (\$5,924) Inv increase = USE of cash
/ \$89.6685 90.14 DOH	/ \$113.4438 142.36 DOH			142.36-90.14=52.22 X \$113.4438 = \$5,924
		(\$2,143) + (\$5,924)= (\$8,067)		

Cash Impact of Mgmt vs. Cash Impact of Growth -- Inventory

- Why does this analysis matter?
 - Inventory DOH increased approximately 29 days and “cost” the company almost \$6MM
 - This analysis leads us to the questions we need to ask the management of the company
 - Talk with me about the increase in Inventory...
 - Are there new product lines? Are there stale or slow moving items? Are certain items obsolete? Is this a one-time opportunity (bulk purchase)?

Cash Impact of Mgmt vs. Cash Impact of Growth – A/P

12/31/15	12/31/16			
COGS \$32,729	COGS \$41,407	12/31/15 DOH 34.09	'16 A/P est-growth \$3,867	'16 A/P-actual \$5,557
/ 365 \$89.6685/day	/ 365 \$113.4438/day	X 2016 Inv/day \$113.4438	12/31/15 A/P \$3,057	'16 A/P-est growth \$3,867
A/P \$3,057	A/P \$5,557	'16 A/P est-growth \$3,867	Chg in A/P-growth \$810	'16 Chg A/P-Mgmt \$1,690
/ \$89.6685 34.09 DOH	/ \$113.4438 48.98 DOH			48.98 – 34.09 = 14.89 X \$113.4438 = \$1,690
		\$810 + \$1,690= \$2,500		

Cash Impact of Mgmt vs. Cash Impact of Growth – A/P

- Is this increase in A/P good or bad?
- It depends...
 - What are the terms with suppliers? Was the prior year an anomaly? Have terms been renegotiated? Are the relationships with major suppliers good? Any risk of the company being placed on COD?

Cash Impact of Mgmt vs. Cash Impact of Growth – A/R

12/31/15	12/31/16	Adjustment needed for Deferred revenue		
Sales \$51,660	Sales \$66,366	12/31/15 DOH adj 6,400-134=6,266 / 141.53425 = 44.272	'16 A/R est-growth \$8,050	'16 A/R adj - actual \$7,410 - 277 = \$7,133
/ 365 \$141.53425/day	/ 365 \$181.82465/day	X 2016 Sales/day \$181.82465	12/31/15 A/R adj \$6,400 - 134 = \$6,266	'16 A/R-est growth \$8,050
A/R net(*) \$6,400	A/R net(*) \$7,410	'16 A/R est-growth \$8,050	Chg in A/R-growth (\$1,784) A/R inc = USE of cash	'16 Chg A/R-Mgmt \$917
/ \$141.53425 45.22 DOH	/ \$181.82465 40.75 DOH			44.272 - 39.23 = 5.042 X \$181.82465 = \$917
(*)A/R \$6,752 Bad debt Res (\$352)	(*)A/R \$7,977 Bad debt Res (\$567)	(\$1,784) + \$917= (\$867)		

Cash Impact of Mgmt vs. Cash Impact of Growth – A/R

- If A/R increased, and increases in A/R equals a USE of cash; how did impact of Mgmt create a SOURCE of cash?
- Why did DOH decrease?



QUESTIONS???