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The Ugly Balance Sheet

What Makes a Great Balance Sheet?

1. **Clear Long-Term strategy**

A focused vision that guides financial decisions over time

2. **Amazing Assets**

High-quality, reliable assets that appreciate over time or depreciate slowly

3. **Smart Liabilities**

Leveraging debt wisely to fuel operations and growth without excess risk

4. **Operational Efficiency**

Identify and eliminate waste across operations

5. **Accumulating Tangible Wealth**

Building real, measurable wealth such as property

6. **Building Goodwill**

Goodwill is an intangible asset reflecting a company's reputation, customer relationships, and market position, often from acquisitions.



BALANCE SHEET

Blue is Good.... Red is Bad

ASSETS			LIABILITIES	
Current Assets (<1 Year)	Cash & Cash Equivalents	Liquidity ↑	Current Liabilities (<1 Year)	Payables & Accrued Expenses
	Marketable Securities Bonds, Stocks			Short-Term Debt
	Accounts Receivables Allowance for Doubtful Accounts			Other Current Liabilities
	Inventory That Appreciates Inventory To Write-Off	Depreciation Shows Up Here	Long Term Liabilities (>1 Year)	Long-Term Debt Finance/Capital Lease Mortgage
Long Term Assets (>1 Year)	Long-Term Investments			Other Long-Term Debt Business Purchase Shareholder Liabilities
	Fixed Assets Vehicles, Equipment, Tools Real Estate		Shareholder Equity	Preferred Stock
	Goodwill?? Balance Sheet, Intangibles, P&L History, Cashflow			Common Stock & Additional Paid-In Capital
	Other Long-Term Assets			Retained Earnings
				Treasury Stock

How banks view your business

Why Banks **DON'T** want to lend you money!

Snow Services

High Equipment Costs, Seasonal, Legal Liability, Unstable Cashflow

Construction & Landscaping Capital Intensive, Weather Dependent, Unstable Cashflow

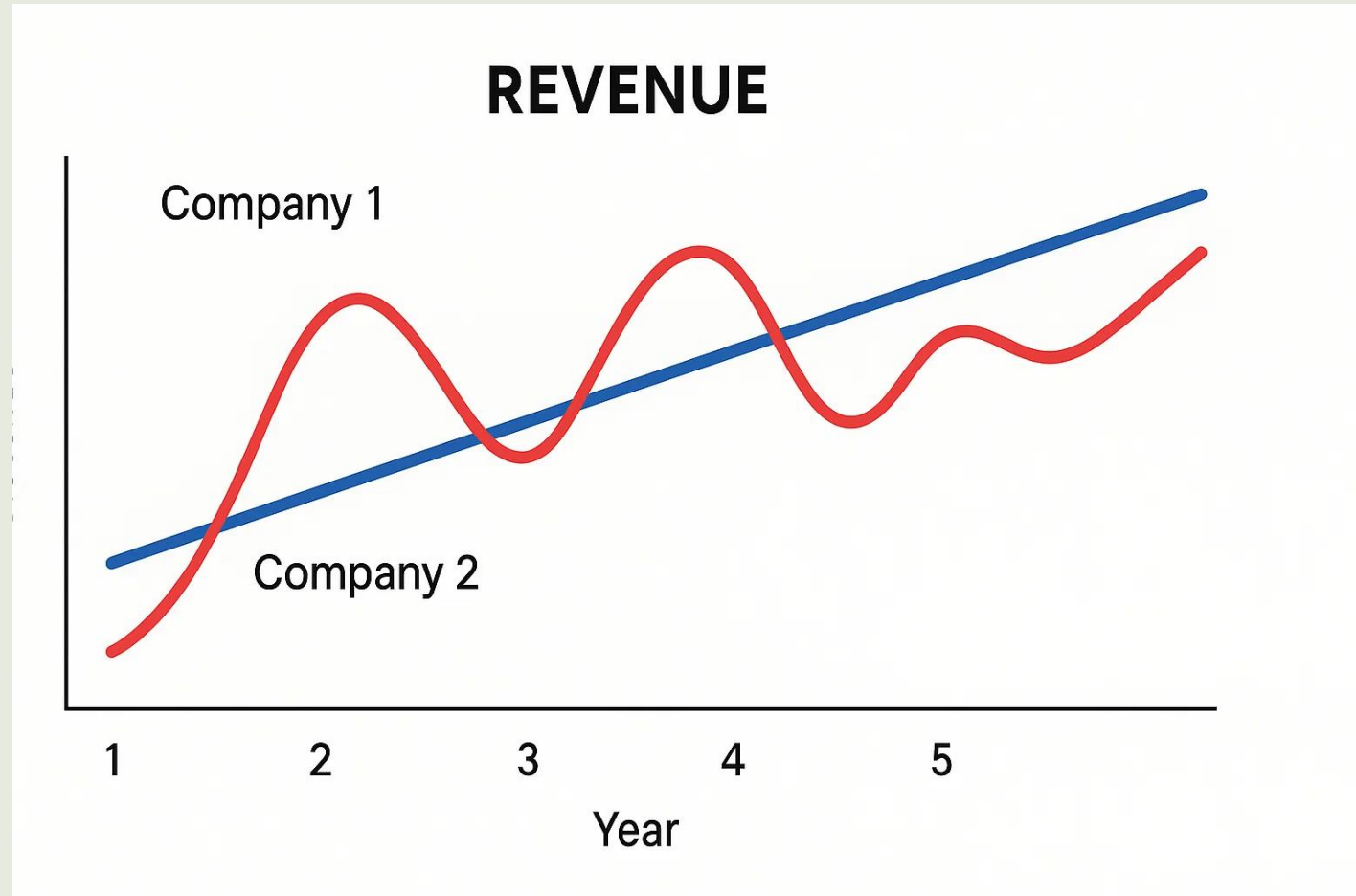


High Risk? That's how Banks see it.



Year Over Year Trends:

Consistent vs
Volatile Revenue



Lines of Credit at Risk?

- Economic Conditions
- Environmental Changes
- High Debt Utilization
- Declining Income
- Missed Payments
- Declining Credit Score
- Inactivity
- Fraud



Collateralized Debt



Someone Is Getting Richer...

Is it...

- The Bank?
- The Leasing Company?
- Your Competition?
- Your Company?
- Your Staff?
- **You?**



Add the total Compounding Interest over time.



Balance Sheet Killers

1. Personal Lifestyle
2. Property Leases
3. Operating Leases
4. Ugly Depreciation
5. High Repairs
6. Lack of Systems



Balance Sheet Killers

- 7. Poor Management
- 8. Lack of Passive Income
- 9. Low Profit
- 10. Lawsuits



What makes a good balance sheet?

1. Long Term Strategy
2. Amazing Assets
3. Smart Liabilities
4. Eliminate Waste
5. Accumulate Tangible Wealth
6. Building Goodwill

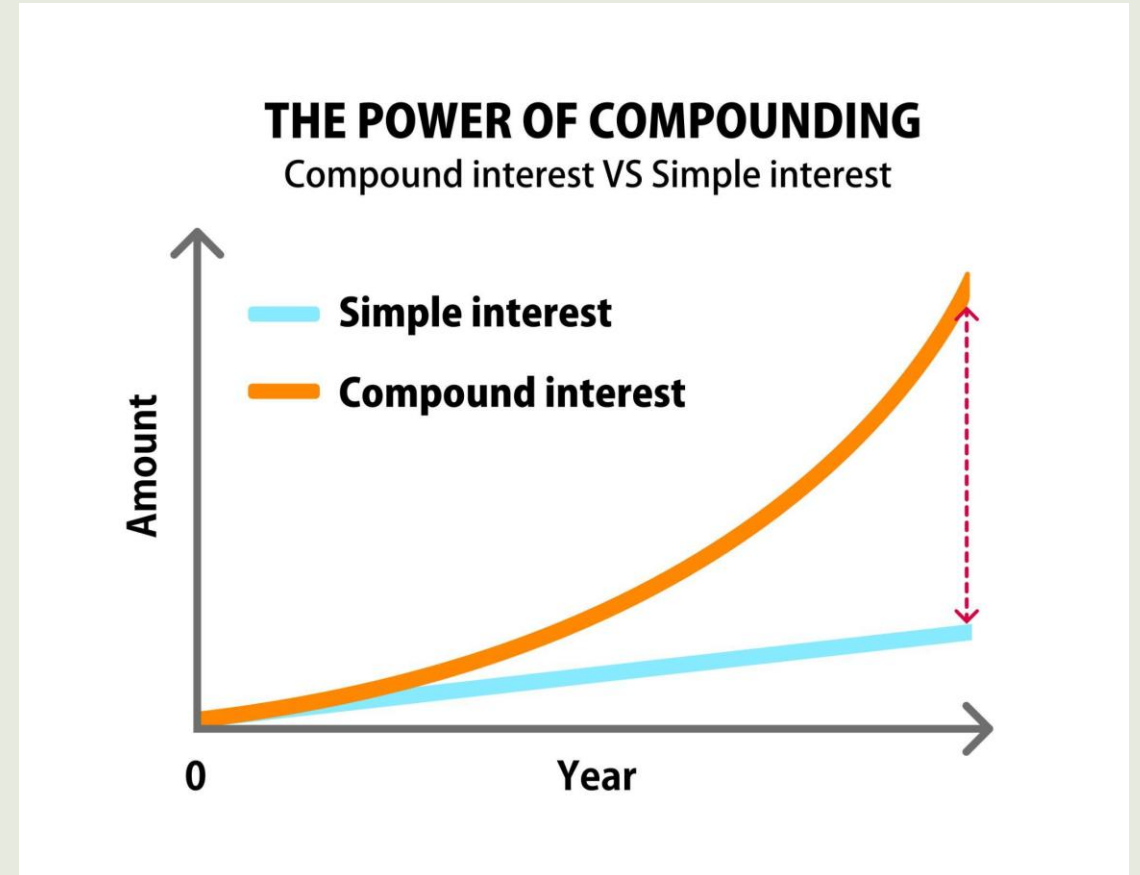


Investments Build Wealth!

Compounding Wealth shows up on the Balance Sheet.

Compound Interest:

- 5% doubles every 15 years
- 10% doubles every 7 years
- 15% doubles every 5 years



Crossing the Rubicon

Decisions that are a point of no return!

- Do you create a Business Empire or Boutique Business
- Tactical vs Strategic Thinking

Bold Strategic Thinking is required for Balance Sheet Growth!



The Roman Empire & Gaul



Crossing the Rubicon

My goal today is to...

- Fill key blind-spots concerning Balance Sheets!
- ...So, you can build true wealth.



Danger & Opportunity on the Other Side



Invest your Free Cashflow (FCF)

FCF = Operating Cashflow – Capital Expenditures

- **High Free Cashflow:** more investment, debt repayment & dividends
- **Low Free Cashflow:** struggling to cover expenses & pay debts



COSTCO



Debt to Equity

Pay attention to the ratios – A lower number is Safer

Equity Ratio	Classification	Financial Implication
Above 0.5	Bad	For every dollar of equity there is 50 cents or more of debt
Between 0.3-0.5	Medium	For every dollar of equity there is between 30 and 50 cents of debt
Below 0.3	Better	For every dollar of equity there is less than 30 cents of debt



EBITDA Coverage Ratio

Pay attention to:

- **Interest Coverage Ratio** is the ability to pay interest

EBITDA Coverage Ratio	Classification	Financial Implication
Above 4.0x	Good	Strong ability to cover interest and debt obligations, low financial risk
2.0x - 4.0x	Medium	Moderate coverage, manageable risk but requires monitoring
Below 2.0x	Bad	Insufficient coverage, potential difficulty meeting financial commitments

High EBITDA, Low Interest = **High Ratio** (Good)



Current Assets:

Cash & Cash Equivalents

Highly Liquid Assets:

- Cash, bank deposits, treasury bills
- Shows your company's ability to pay short-term liabilities & manage operations

Banks Love This!



Cash is King





Current Assets: Ratios


Pay attention to Liquidity:

- **Cash Ratio:** ability to cover debts with cash alone
- **Asset Ratio:** Current Assets/Current Liabilities

Cash is King!



Cash Ratio Formula =
$$\frac{\text{Cash \& Cash Equivalents}}{\text{Total Current Liabilities}}$$




Interpretation

Cash Ratio > 1: The company is financially doing well and can pay its liabilities.

Cash Ratio = 1: The company has sufficient cash to cover its liabilities.

Cash Ratio < 1: The company doesn't have enough cash to repay its liabilities.



Cash Ratio = Cash to Debt

Asset Ratio = Assets/Current Liabilities



Current Assets:

Receivables

Money you are owed for Goods & Services delivered

- Varies on customer payment reliability
- **Turnover Ratio** = payment collection efficiency!
- Allowance for Doubtful Accounts (Bad Debts)

When am I going to Get Paid?



Receivables Risk!

- 30/60/90/120 days?
- How long can you go without cash?
- Do you have a plan for debt that goes bad?
- Do you forecast your cashflow?
- Do you budget based on your cashflow??
- A good balance sheet will save you!



Appreciating Inventory?

Assets that generate value but can also lose value

- Inventory Turnover
- Inventory Write-Offs



Saleable or Junk



Long-Term Assets:

Long-Term Investments

Assets held for 1 year or more

- Stocks, bonds, real estate, venture capital
- Why does the Stock Market historically always increase in aggregate value over time?



Long-Term Assets: Fixed Assets

Tangible assets held for more than
1 year

- Vehicles, equipment, tools, buildings & real estate
- Essential for daily business operations, but also provides long-term value
- Not easily liquidated
- Are your assets Pretty Ugly?

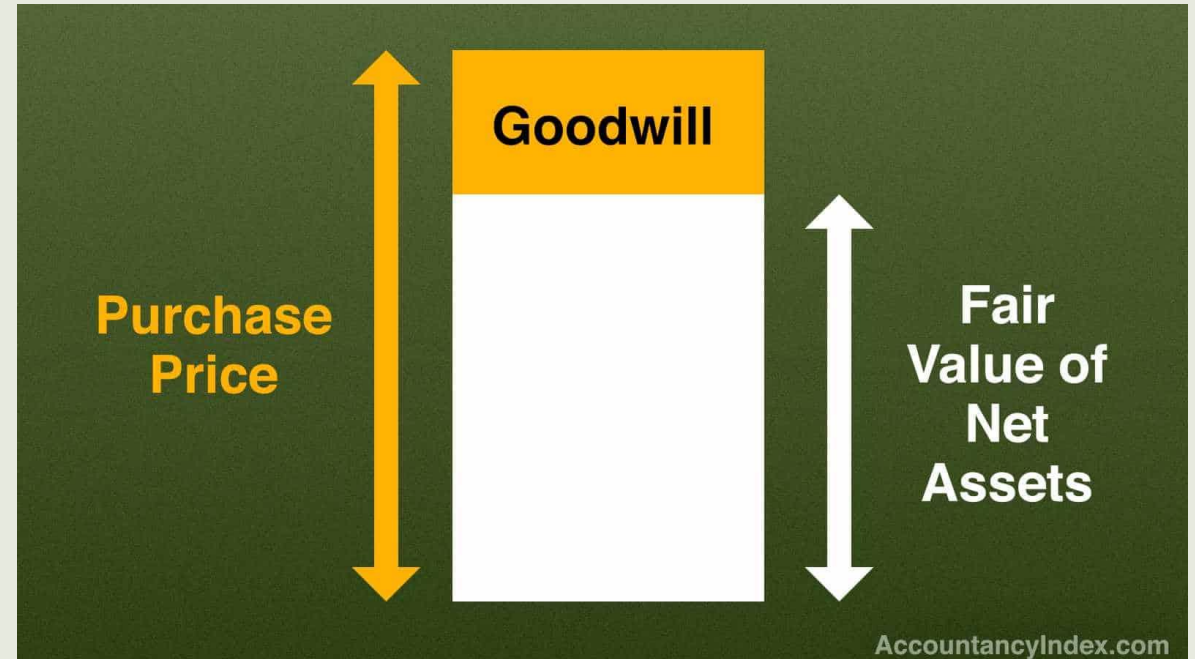


Long-term Assets:

Goodwill

Does anyone know the Goodwill value of their business?

- It is the sum of the **intangible** things you do right
- It is where all the **value you cannot see** accumulates
- **Turn-key** businesses command a huge **premium**



What Goodwill looks like!

Quality is never a mistake

- It's uncommon
- It will build your brand, your referrals, and the stability of your business
- Everyone wants quality and will pay a premium for it!

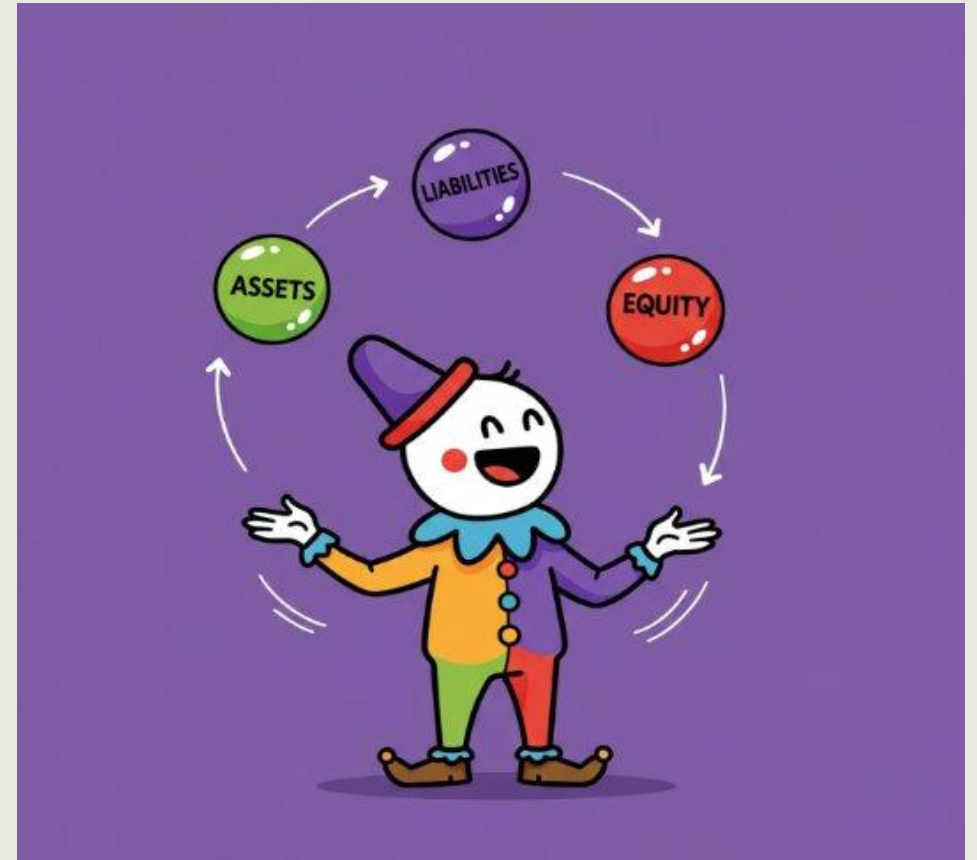


Balance Sheet Improvements

Pay down debt

- Buy businesses using their money
- Better Assets, Less Liabilities
- Diversify Revenue Streams
- Leverage Debt for Growth?
- Annually Audit Financial Statements

Neglect this at your peril!



Income Statement:

Transfers to the Balance Sheet

Profit or Loss?

- Affects retained earnings

Depreciation & Amortization

- Affects book value of fixed assets

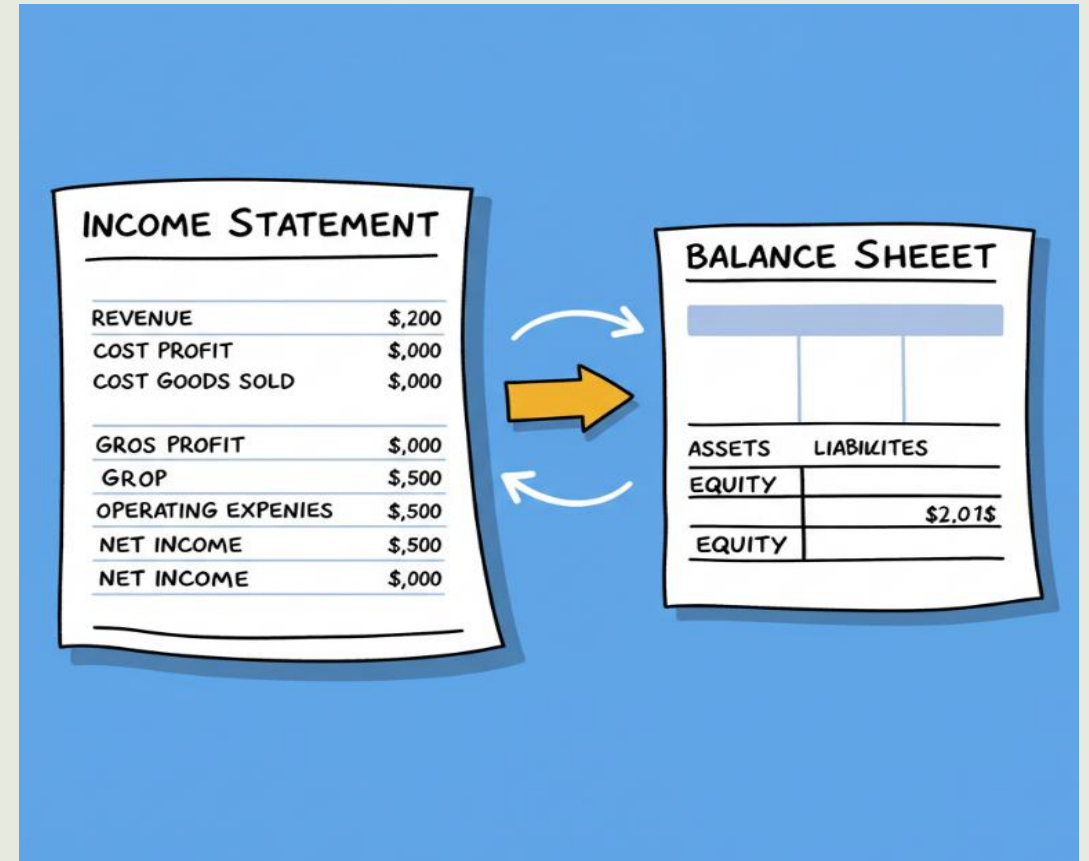
Inventory Adjustments (Write-Offs)

- Affects asset values

Receivables & Payable Adjustments.. Bad debt

Dividends

- Reduces retained earnings



Money Management affects the Balance Sheet

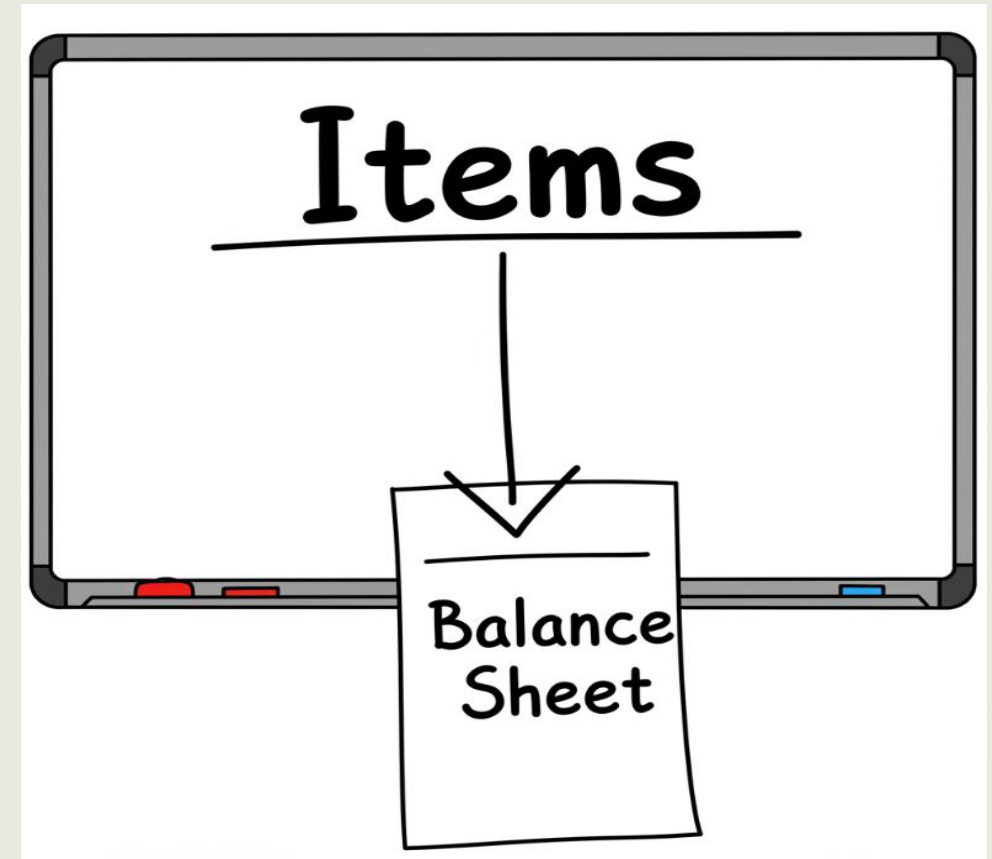


Off The Balance Sheet?

1. Operating Leases
2. Contingent Liabilities
3. Real Estate Listings
4. Loan Commitments
5. Letters of Credit
6. Unconsolidated Joint Ventures
7. **Inventory Not Accounted For**

Flow Through Items

- A. Vehicle broker
- B. Real Estate broker
- C. Consignment broker



You are not as rich as you think?



The Vehicle Broker:

A Cautionary Story

- Calculations based on assets that were flowing through his business
- His sales weren't \$10 million, they were \$300K!
- The business was completely misrepresented.
- The debt-to-equity was skewed.
- **Who Owns the debt?**



Not all that glitters is gold...



10x GOODWILL BUILDER

Assets		Discipline		Culutre	
<input checked="" type="checkbox"/>	TANGIBLE INVESTMENTS Things	<input checked="" type="checkbox"/>	SPENDING CONTROLS Money	<input checked="" type="checkbox"/>	INTANGIBLE INVESTMENTS Culture
<input type="checkbox"/>	OWNED PROPERTY \$ _____	<input type="checkbox"/>	BUDGETS \$ _____ YoY RATIO TREND	<input type="checkbox"/>	CLEAN FINANCIALS_ESTIMATING_CONTRACTS \$ _____
<input type="checkbox"/>	PRODUCTIVE ASSETS - ONSITE EQUIPMENT TOOLS \$ _____	<input type="checkbox"/>	WASTE ELIMINATION \$ _____ YoY RATIO TREND	<input type="checkbox"/>	PLANNING SYSTEMS_STRATEGY_TACTICS \$ _____
<input type="checkbox"/>	LOW DEPRECIATION_ASSET TURN-OVER \$ _____	<input type="checkbox"/>	SAVINGS \$ _____ YoY RATIO TREND	<input type="checkbox"/>	BUSINESS EDUCATION / MANAGEMENT TEAM \$ _____
<input type="checkbox"/>	OFFICE \$ _____	<input type="checkbox"/>	OVERSPENDING YoY RATIO TREND	<input type="checkbox"/>	5S ADMIN SYSTEMS & PHYSICAL SYSTEMS \$ _____
<input type="checkbox"/>	YARD \$ _____	<input type="checkbox"/>	PEOPLE (SKILL/COST)*ATTITUDE >1 YoY RATIO TREND	<input type="checkbox"/>	COMMUNICATION SYSTEMS \$ _____
<input type="checkbox"/>	YARD LOADER \$ _____	<input type="checkbox"/>	INVENTORY & MATERIALS \$ _____ YoY RATIO TREND	<input type="checkbox"/>	HR SYSTEMS - RECRUITE_HIRE_RETIRE \$ _____
<input type="checkbox"/>	RETAINED EARNINGS_ SAVINGS_BONDS_STOCKS \$ _____	<input type="checkbox"/>	DISCRETIONARY_ENTERTAINMENT_TRAVEL_GIFTS \$ _____ YoY RATIO TREND	<input type="checkbox"/>	MARKETING / BRAND \$ _____
<input type="checkbox"/>	OTHER ASSETS \$ _____	<input type="checkbox"/>	METRICS MEASUREMENTS \$ _____	<input type="checkbox"/>	SELLING SYSTEMS \$ _____
<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>	AQUISITIONS & SUCCESSION SYSTEMS \$ _____
<input type="checkbox"/>	HAPPY SHAREHOLDERS	<input type="checkbox"/>	HAPPY CUSTOMERS	<input type="checkbox"/>	HAPPY EMPLOYEES



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Thank you!

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