

FINANCIAL STATEMENTS' RECONCILIATION AND ANALYSIS

ABOUT THE CLIENT

Client is a US Based Digital Marketing Agency running digital marketing campaigns for a wide variety of B2B and B2C businesses

SITUATION



- Client had an opportunity for in-depth understanding of their financial performance and to also set key targets for the upcoming FY based on the historical financial performance.
- Merilytics partnered with the client to reconcile their financial statements and assess the customer level profitability, and projected the financial statements based on the historical performance and key user inputs.

VALUE ADDITION



- Reviewed the Journal entries to build the 03 financial statements (Income Statement, Balance Sheet and Cash Flow Statement) from ground up.
- Designed the financial statements to project the revenue, expenses, assets, liabilities and cash flow based on the historical performance and user inputs
- Performed a customer level financial analysis to gain insights in customer level profitability and provide insights to client's BD team regarding potential target industries, customer segment, project size to maximize agency's overall profitability.

IMPACT



- Dynamically forecasted financial statements enabled the client to set realistic targets for different teams within the agency to achieve a pre-set revenue/profitability target.
- Customer level financial analysis enabled the BD team to streamline their efforts to the target industries, customer profile which will maximize agency's profitability

RECONCILED AND FORECASTED FINANCIAL STATEMENTS

Notes

1. Numbers in blue are user inputs can be changed
2. Numbers in black are calculated metrics and should not be edited
3. Cells in green are forecasted metrics and should not be edited
4. 2018 includes actuals till Sep '18 and forecast from Oct '18 - Dec '18

Income Statement	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F
Revenue	\$1,030,916	\$1,714,081	\$2,972,489	\$6,146,552	\$5,948,778	\$1,454,166	\$5,332,815	\$9,885,929	\$17,314,591	\$27,275,589	\$40,602,095	\$59,454,123
Cost of Goods Sold	\$37,782	\$255,076	\$18,612	\$17,178	\$58,490	\$96	\$213,313	\$395,437	\$692,584	\$1,091,024	\$1,624,084	\$2,378,165
Cost of Goods - LTW	\$0	\$5,701	\$660	\$360	\$60,480	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Goods - Out of Pocket	\$0	\$1,620	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Goods - Outsourced Services	\$0	\$49,463	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Client Marketing Research	\$0	\$0	\$2,573	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Media	\$37,782	\$198,291	\$15,380	(\$3,836)	(\$8,398)	\$0	\$213,313	\$395,437	\$692,584	\$1,091,024	\$1,624,084	\$2,378,165
Gross Revenue - Media	\$0	(\$970,549)	(\$4,219,452)	(\$5,524,555)	(\$2,700,277)	(\$559)	(\$3,468,330)	(\$6,425,854)	(\$11,254,484)	(\$17,729,133)	(\$26,391,362)	(\$38,645,180)
Cost of Goods - Media	\$37,782	\$1,168,841	\$4,234,832	\$5,520,719	\$2,691,879	\$559	\$3,679,642	\$6,821,291	\$11,947,068	\$18,820,157	\$28,015,446	\$41,023,345
Reimbursable Expenses	\$0	\$0	\$0	\$20,654	\$6,408	\$96	\$0	\$0	\$0	\$0	\$0	\$0
Agency Gross Income	\$993,134	\$1,459,005	\$2,953,877	\$6,129,374	\$5,890,289	\$1,454,070	\$5,119,502	\$9,490,492	\$16,622,007	\$26,184,566	\$38,978,011	\$57,075,958
Operating Expenses	\$837,910	\$1,126,103	\$1,776,678	\$4,113,020	\$4,120,359	\$1,911,463	\$3,569,621	\$5,624,074	\$8,253,826	\$12,188,803	\$17,214,049	\$24,411,875
Payroll Expenses	\$581,506	\$708,184	\$1,247,846	\$3,311,979	\$3,126,824	\$1,055,834	\$2,759,732	\$4,646,386	\$6,951,808	\$10,719,307	\$15,388,194	\$22,176,388
Contract Labor - Admin	\$74,033	\$0	\$0	\$31,860	\$52,970	\$13,925	\$26,664	\$49,430	\$69,258	\$109,102	\$121,806	\$178,362
Contract Labor - CG	\$250,700	\$243,822	\$240,688	\$240,000	\$212,412	\$163,815	\$319,969	\$593,156	\$865,730	\$1,363,779	\$1,624,084	\$2,378,165
Contract Labor - LTW	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contract Labor - Freelancers	\$81,779	\$128,834	\$199,457	\$394,533	\$526,064	\$267,702	\$533,282	\$988,593	\$1,731,459	\$2,727,559	\$4,060,210	\$5,945,412
Salaries	\$124,662	\$232,038	\$662,802	\$2,310,242	\$2,057,721	\$526,764	\$1,593,845	\$2,471,482	\$3,462,918	\$5,455,118	\$8,120,419	\$11,890,825
Salaries - Officer	\$33,769	\$57,979	\$46,002	\$119,457	\$102,417	\$26,223	\$93,324	\$197,719	\$303,005	\$409,134	\$507,526	\$594,541
Bonus Salaries	\$0	\$18,000	\$29,880	\$12,480	\$0	\$0	\$26,664	\$49,430	\$86,573	\$109,102	\$142,107	\$148,635
Taxes - Payroll	\$16,563	\$27,511	\$69,017	\$203,407	\$175,240	\$55,404	\$159,984	\$296,578	\$432,865	\$545,512	\$812,042	\$1,040,447
Accounting	\$0	\$42,642	\$71,293	\$111,417	\$134,771	\$81,018	\$84,000	\$90,000	\$96,000	\$102,000	\$108,000	\$114,000

INCOME STATEMENT

Cash Flow Statement	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F
Operating Activities												
Net Income	\$104,445	\$316,871	\$1,155,380	\$1,970,197	\$1,734,815	(\$485,007)	\$1,493,553	\$3,764,559	\$8,156,206	\$13,718,806	\$21,351,942	\$32,063,541
Adjustments to Net Income												
Accounts Receivable	\$0	(\$383,723)	(\$366,456)	(\$55,868)	(\$84,866)	\$816,635	(\$932,278)	(\$910,623)	\$245,727	(\$396,100)	(\$1,332,651)	(\$1,885,203)
Unapplied AR & AP	\$0	\$10	\$0	(\$10)	\$0	(\$0)	\$0	\$0	\$0	\$0	\$0	\$0
Accounts Payable	\$0	\$17,361	\$293,388	(\$289,592)	\$75,158	(\$30,124)	\$367,107	\$120,999	\$371,433	(\$47,462)	\$399,795	\$1,160,102
Current Liability Accounts												
Advance Bill Accrual	\$0	\$127,412	(\$231,494)	\$104,083	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Media Prebill Accrual	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Payroll Tax Liability	\$4,328	\$4,163	(\$5,932)	(\$6,266)	\$4,118	\$1,426	\$51,471	\$45,531	\$31,000	\$74,707	\$404,465	\$580,051
Media Expenses Payable	\$0	\$0	\$201,871	(\$174,523)	\$14,459	\$7,717	\$110,461	\$87,164	\$142,430	\$155,933	\$469,541	\$1,065,842
Net Cash Flow From Operating Activities	\$108,774	\$82,108	\$1,046,756	\$1,548,021	\$1,743,684	\$250,646	\$1,030,314	\$3,107,630	\$8,946,796	\$12,905,886	\$21,293,092	\$32,984,334
Investing Activities												
Fixed Assets												

CASHFLOW STATEMENT

Balance Sheet	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Assets												
Current Assets												
Checking - WF	\$56,789	\$76,290	\$698,727	\$781,967	\$891,847	\$1,730,883	\$2,365,797	\$4,259,976	\$12,251,337	\$23,914,280	\$42,862,840	\$73,015,579
Wells Fargo - HAS	\$3	\$4	\$4	\$5	\$3	\$3	\$0	\$0	\$0	\$0	\$0	\$0
Checking - Comerica	\$0	\$0	\$2,378	\$554	\$637	\$4,349	\$43,806	\$239,325	\$688,277	\$1,343,499	\$2,435,389	\$4,148,612
Checking - Chase	\$0	\$6,160	\$7,432	\$8,918	\$4,502	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Savings - WF	\$46,795	\$10,066	\$12,079	\$14,495	\$17,394	\$4,349	\$74,709	\$287,193	\$825,933	\$1,612,199	\$3,409,544	\$5,808,057
Accounts Receivable	\$0	\$383,723	\$826,931	\$1,048,185	\$1,342,688	\$89,141	\$1,066,563	\$1,977,186	\$1,731,459	\$2,727,559	\$4,060,210	\$5,945,412
Unapplied AR & AP	\$0	(\$10)	(\$12)	(\$5)	(\$5)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Current Assets	\$103,587	\$476,238	\$1,547,539	\$1,854,120	\$2,257,066	\$1,828,722	\$3,556,876	\$6,763,676	\$15,497,006	\$29,597,536	\$52,767,982	\$88,917,661
Fixed Assets												
Furniture & Fixtures	\$21,406	\$25,687	\$30,825	\$52,005	\$62,406	\$43,706	\$75,000	\$90,000	\$125,000	\$150,000	\$200,000	\$250,000
Computer Equipment	\$22,761	\$27,313	\$32,776	\$44,907	\$61,474	\$45,183	\$75,000	\$80,000	\$100,000	\$120,000	\$150,000	\$170,000
Autos	\$81,655	\$97,986	\$117,584	\$141,100	\$169,320	\$98,022	\$81,685	\$81,685	\$81,685	\$81,685	\$81,685	\$81,685
Accumulated Depreciation	(\$87,928)	(\$115,738)	(\$145,021)	(\$198,621)	(\$248,892)	(\$168,220)	(\$208,517)	(\$226,517)	(\$276,017)	(\$316,517)	(\$388,517)	(\$451,517)
Total Fixed Assets	\$37,895	\$35,243	\$36,164	\$39,392	\$44,309	\$18,691	\$23,169	\$25,169	\$30,669	\$35,169	\$43,169	\$50,169
Other Assets												
Note Receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accumulated Amortization	(\$914)	(\$1,170)	(\$1,243)	(\$1,243)	(\$1,243)	(\$1,060)	(\$1,200)	(\$800)	(\$1,200)	(\$1,500)	(\$1,500)	(\$1,500)
Misc Receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

BALANCE SHEET

KPIS FOR BUSINESS PERFORMANCE AND GROWTH

ILLUSTRATIVE

Key Metrics Summary												
	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F
Revenue	\$1,030,916	\$1,714,081	\$2,972,489	\$6,146,552	\$5,948,778	\$1,454,166	\$5,332,815	\$9,885,929	\$17,314,591	\$27,275,589	\$40,602,095	\$59,454,123
Operating Expenses	\$837,910	\$1,126,103	\$1,776,678	\$4,113,020	\$4,120,359	\$1,911,463	\$3,569,621	\$5,624,074	\$8,253,826	\$12,188,803	\$17,214,049	\$24,411,875
Payroll	\$581,506	\$708,184	\$1,247,846	\$3,311,979	\$3,126,824	\$1,055,834	\$2,759,732	\$4,646,386	\$6,951,808	\$10,719,307	\$15,388,194	\$22,176,388
Operating Margin	\$155,224	\$332,901	\$1,171,077	\$2,012,599	\$1,764,508	(\$457,393)	\$1,546,881	\$3,863,418	\$8,363,982	\$13,991,562	\$21,757,963	\$32,658,083
Margin	\$104,445	\$316,871	\$1,155,380	\$1,970,197	\$1,734,815	(\$485,007)	\$1,493,553	\$3,764,559	\$8,156,206	\$13,718,806	\$21,351,942	\$32,063,541
# of Clients	11	18	31	32	25	19	16	27	40	56	75	92
Retained Clients	1	10	12	24	16	11	4	9	16	26	39	56
New Clients	10	8	19	8	10	8	12	18	24	30	36	36
# of Projects	86	581	967	1143	803	274	523	932	1499	2239	3133	4235
Small (0-10 hrs.)	73	378	510	484	343							
Mid (11-75 hrs.)	10	177	368	467	266							
Large (>75 hrs.)	3	26	89	192	194							
Avg. # of Projects Per Client (Large)	8	32	31	35	32	14	33	35	38	40	42	46
# Hours Spent	219	5,864	25,892	45,119	48,389	16,224	26,141	48,460	82,450	129,884	187,973	275,251
Avg. # Hours Spent Per Client	20	326	830	1,393	1,920	845	1,667	1,820	2,063	2,320	2,500	2,979
Avg. Hours Spent Per Project	3	10	27	39	60	59	50	52	55	58	60	65
Avg. Revenue Per Client	\$95,455	\$95,227	\$95,272	\$189,708	\$236,063	\$75,738	\$340,000	\$371,280	\$433,125	\$487,200	\$540,000	\$643,500
Avg. Expense Per Client	\$77,584	\$62,561	\$56,945	\$126,945	\$163,506	\$99,555	\$227,585	\$211,220	\$206,470	\$217,718	\$228,944	\$264,221
Avg. Revenue Per Project	\$11,987	\$2,950	\$3,074	\$5,378	\$7,408	\$5,312	\$10,200	\$10,608	\$11,550	\$12,180	\$12,960	\$14,040
Avg. Expense Per Project	\$9,743	\$1,938	\$1,837	\$3,598	\$5,131	\$6,983	\$6,828	\$6,035	\$5,506	\$5,443	\$5,495	\$5,765
YoY Growth												
	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F
Revenue		66%	73%	107%	-3%	-76%	267%	85%	75%	58%	49%	46%
Operating Expense		34%	58%	132%	0%	-54%	87%	58%	47%	48%	41%	42%
Payroll		22%	76%	165%	-6%	-66%	161%	68%	50%	54%	44%	44%
Operating Margin		114%	252%	72%	-12%	-126%	-438%	150%	116%	67%	56%	50%
Net Profit Margin		203%	265%	71%	-12%	-128%	-408%	152%	117%	68%	56%	50%
Total Growth in # of clients		67%	73%	4%	-22%	-24%	-18%	70%	50%	40%	34%	23%
Retained Clients		700%	25%	100%	-35%	-13%	-66%	134%	85%	63%	51%	44%
New clients growth		-13%	129%	-56%	14%	-13%	43%	50%	33%	25%	20%	0%
# of Projects		576%	66%	18%	-30%	-66%	91%	78%	61%	49%	40%	35%
Small (0-10 hrs.)		418%	35%	-5%	-29%							
Mid (11-75 hrs.)		1670%	108%	27%	-43%							
Large (>75 hrs.)		767%	242%	116%	1%							
Avg. # of Projects Per Client (Large)		305%	-4%	14%	-10%	-55%	134%	5%	7%	7%	4%	10%
# Hours Spent		2575%	342%	74%	7%	-66%	61%	85%	70%	58%	45%	46%

KEY METRICS HIGHLIGHTING
THE BUSINESS PERFORMANCE
AND GROWTH