

Overview

This analysis presents a review of the company's cash flows between 2015 and 2020. We identified a recurring challenge with 18 months of low cash balances, highlighting a trend that lacks a seasonal pattern. This was not solely due to sales performance but was significantly influenced by high expense ratios and prolonged receivables collection, with an average receivable of approximately \$202,855 during these periods. On the other hand, we noticed significant cash balance peaks of \$1.1 million in May 2020 and \$2.8 million in November 2020 without a corresponding increase in sales, suggesting contributions from external financing. A \$2 million loan in September 2020 highlights the necessity for external financing to bridge the operational cash gap. To address these concerns, it is recommended that the company renegotiates payment terms with its customers, improves working capital management and stringent expense management, enhances sales strategies, and employs cash flow forecasting techniques. These measures aim to optimize the cash conversion cycle, enhance liquidity, and achieve a more stable and predictable cash flow.

Key Findings and Analysis

The company maintained an average cash balance of \$257,213, average monthly sales of \$261,541, and average monthly expenses of \$50,024. Upon closer inspection, the low cash position is not predominantly due to insufficient sales, sales activities contribute positively during peak cash periods but do not offset the cash flow shortages during the lows. Two significant factors that contribute to these cash flow challenges are high monthly expenses and delays in account receivables collections. The company experienced liquidity challenges 18 times, with cash reserves falling below \$50,088 (25th percentile), unrelated to seasonal trends. One of the most alarming lows was in February 2018, with the cash balance at a mere \$2,846, no sales, and expenses of \$2,812 recorded, which may point to a data anomaly. In August 2020, the cash balance was low at \$251,736 despite robust sales of \$321,719, which may indicate delays in receivables collection or other cash outflows impacting the cash balance. On the other hand, high cash balances generally align with either high sales volume, low monthly expenses, or a combination of both. For instance, the cash balance in October 2015 was \$305,411, with high sales of \$229,961 and expenses of \$38,385 (17% of sales).

A significant lag in payment collection, particularly from key customers like Customer ABC with invoices K1164 and K1165 were both billed on February 28, 2020, and were not paid until May 28, 2020, resulting in payment terms extending up to 90 days, has a substantial impact on liquidity. The company may need to increase its working capital to bridge the gap between the outflow of operational expenses and the inflow of receivables. The \$1 million invoice payment led to the initial peak cash balance was \$1.1 million in May 2020, followed by a November 2020 peak of \$2.8 million resulting from a \$2 million loan taken in September 2020, highlights the company's dependence on external financing to maintain operations and manage cash flow shortages. While this provides a temporary solution, it indicates a need for better financial strategies to reduce such dependency.

To strengthen the company's financial position, we propose the following approach:

- **Receivables Management:** Speed up payments by renegotiating terms, penalizing late payments, and rewarding early ones.
- **Expense Control:** Review monthly expenses to identify and eliminate inefficiencies and consider cost-saving initiatives to reduce the expense ratio.
- **Sales Strategy Optimization:** Onboard new clients, diversifying beyond two primary customers to reduce dependency, mitigate sales fluctuation risks, and ensure a more stable and resilient revenue stream for sustainable business growth.
- **Credit Policy Reevaluation:** Be stricter in assessing customer credit to lower risks
- **Cash Flow Forecasting:** Implementing robust forecasting tools is essential due to the lack of clear seasonality in our cash flow dips.

APPENDIX**Example of Payment Collection Lag:**

| Invoice | Date Billed | Date Paid | Lag (Days) | Amount | Customer |
|----------------|--------------------|------------------|-------------------|---------------|-------------------------|
| K1164 | 2/28/2020 | 5/28/2020 | 90 | 178,669 | CUSTOMER ABC (COLOMBIA) |
| K1165 | 2/28/2020 | 5/28/2020 | 90 | 178,669 | CUSTOMER ABC (COLOMBIA) |
| K1166 | 3/2/2020 | 5/28/2020 | 87 | 188,501 | CUSTOMER ABC (COLOMBIA) |
| K1168 | 4/1/2020 | 5/28/2020 | 57 | 234,335 | CUSTOMER ABC (COLOMBIA) |
| K1170 | 5/1/2020 | 5/28/2020 | 27 | 228,976 | CUSTOMER ABC (COLOMBIA) |

2020 (Current Year) and 2019 (Previous Year) Income Statement

| Op | Income Statement Items | Current Year (\$US) | Previous Year (\$US) | YoY Change (%) |
|-----|------------------------|---------------------|----------------------|----------------|
| | Revenue | 3,749,394.2 | 3,464,609.9 | 8.2 |
| (-) | COGS | 1,637,469.1 | 2,600,699.4 | -37.0 |
| = | GP | 2,111,925.2 | 863,910.5 | 144.5 |
| % | Margin GP | 56.3 | 24.9 | 31.4 |
| | | | | |
| (-) | S.Exp | 539,210.6 | 543,427.0 | -0.8 |
| (-) | G.Exp | 242,165.8 | 188,222.1 | 28.7 |
| (-) | A.Exp | 0.0 | 0.0 | 0 |
| (-) | Others | 0.0 | 0.0 | 0 |
| = | OPEX | 781,376.4 | 731,649.1 | 6.8 |
| % | Margin | 20.8 | 21.1 | -0.3 |
| | | | | |
| (+) | Oth Inc | 101,174.6 | 0.0 | N/A |
| | | | | |
| = | EBIT | 1,431,723.4 | 132,261.4 | 982.5 |
| % | Margin | 38.2 | 3.8 | 34.4 |
| | | | | |
| (-) | IncTax | 0.0 | 0.0 | 0.0 |
| (-) | OthTax | 0.0 | 0.0 | 0.0 |
| | | | | |
| (=) | NetInc | 1,431,723.4 | 132,261.4 | 982.5 |
| % | Margin | 38.2 | 3.8 | 34.4 |

2020 (Current Year) and 2019 (Previous Year) Balance Sheet

| Op | Balance Sheet Items | Current Year (\$US) | Previous Year (\$US) | YoY Change (%) |
|-----|---------------------|---------------------|----------------------|----------------|
| | CA | 4,265,470.6 | 3,363,205.7 | 26.8 |
| (+) | FA | 0.0 | 0.0 | N/A |
| (+) | DA | 0.0 | 0.0 | N/A |
| (=) | TA | 4,265,470.6 | 3,363,205.7 | 26.8 |
| | | | | |
| | CL | 985,933.9 | 1,449,032.0 | -32.0 |
| (+) | NL | 0.0 | 0.0 | N/A |
| (+) | DL | 0.0 | 0.0 | N/A |
| (+) | EQ | 3,279,536.7 | 1,914,173.7 | 71.3 |
| | | | | |
| (=) | EL | 4,265,470.6 | 3,363,205.7 | 26.8 |

2018 (Current Year) and 2017 (Previous Year) Income Statement

| Op | Income Statement Items | Current Year (\$US) | Previous Year (\$US) | YoY Change (%) |
|-----|------------------------|---------------------|----------------------|----------------|
| | Revenue | 2,949,934.8 | 2,808,086.9 | 5.1 |
| (-) | COGS | 2,142,177.5 | 1,847,965.8 | 15.9 |
| = | GP | 807,757.3 | 960,121.1 | -15.9 |
| % | Margin | 27.4 | 34.2 | -6.8 |
| | | | | |
| (-) | S.Exp | 364,169.2 | 343,045.7 | 6.2 |
| (-) | G.Exp | 117,596.6 | 131,302.4 | -10.4 |
| (-) | A.Exp | 0.0 | 0.0 | 0 |
| (-) | Others | 0.0 | 0.0 | 0 |
| = | OPEX | 481,765.8 | 474,348.2 | 1.6 |
| % | Margin | 16.3 | 16.9 | -0.6 |
| | | | | |
| (+) | Oth Inc | 45,495.8 | 0.0 | HULL |
| = | EBIT | 371,487.4 | 485,773.0 | -23.5 |
| % | Margin | 12.6 | 17.3 | -4.7 |
| | | | | |
| (-) | IncTax | 0.0 | 0.0 | 0.0 |
| (-) | OthTax | 0.0 | 0.0 | 0.0 |
| | | | | |
| (=) | NetInc | 371,487.4 | 485,773.0 | -23.5 |
| % | Margin | 12.6 | 17.3 | -4.7 |

2018 (Current Year) and 2017 (Previous Year) Balance Sheet

| Op | Balance Sheet Items | Current Year (\$US) | Previous Year (\$US) | YoY Change (%) |
|-----|---------------------|---------------------|----------------------|----------------|
| | CA | 2,975,073.7 | 2,647,129.6 | 12.4 |
| (+) | FA | 0.0 | 0.0 | N/A |
| (+) | DA | 0.0 | 0.0 | N/A |
| (=) | TA | 2,975,073.7 | 2,647,129.6 | 12.4 |
| | | | | |
| | CL | 1,193,161.4 | 1,247,975.6 | -4.4 |
| (+) | NL | 0.0 | 0.0 | N/A |
| (+) | DL | 0.0 | 0.0 | N/A |
| (+) | EQ | 1,781,912.4 | 1,399,154.0 | 27.4 |
| | | | | |
| (=) | EL | 2,975,073.7 | 2,647,129.6 | 12.4 |

2016 (Current Year) and 2015 (Previous Year) Income Statement

| Op | Income Statement Items | Current Year (\$US) | Previous Year (\$US) | YoY Change (%) |
|-----|------------------------|---------------------|----------------------|----------------|
| | Revenue | 2,469,868.7 | 2,604,411.2 | -5.2 |
| (-) | COGS | 1,863,923.2 | 1,853,985.1 | 0.5 |
| = | GP | 605,945.5 | 750,426.1 | -19.3 |
| % | Margin | 24.5 | 28.8 | -4.3 |
| | | | | |
| (-) | S.Exp | 353,857.8 | 579,704.5 | -39.0 |
| (-) | G.Exp | 139,967.5 | 59,050.9 | 137.0 |
| (-) | A.Exp | 0.0 | 0.0 | 0 |
| (-) | Others | 0.0 | 0.0 | 0 |
| = | OPEX | 493,825.4 | 638,755.4 | -22.7 |
| % | Margin | 20.0 | 24.5 | -4.5 |
| | | | | |
| (+) | Oth Inc | 92,577.0 | 14,913.7 | 520.8 |
| = | EBIT | 204,697.1 | 126,584.4 | 61.7 |
| % | Margin | 8.3 | 4.9 | 3.4 |
| | | | | |
| (-) | IncTax | 247,112.1 | 0.0 | 0.0 |
| (-) | OthTax | 0.0 | 0.0 | 0.0 |
| | | | | |
| (=) | NetInc | -42,415.0 | 126,584.4 | -133.5 |
| % | Margin | -1.7 | 4.9 | -6.6 |

2016 (Current Year) and 2015 (Previous Year) Balance Sheet

| Op | Balance Sheet Items | Current Year (\$US) | Previous Year (\$US) | YoY Change (%) |
|-----|---------------------|---------------------|----------------------|----------------|
| | CA | 2,543,731.9 | 2,469,102.7 | 3.0 |
| (+) | FA | 0.0 | 0.0 | N/A |
| (+) | DA | 0.0 | 0.0 | N/A |
| (=) | TA | 2,543,731.9 | 2,469,102.7 | 3.0 |
| | | | | |
| | CL | 1,640,582.0 | 1,521,945.1 | 7.8 |
| (+) | NL | 0.0 | 0.0 | N/A |
| (+) | DL | 0.0 | 0.0 | N/A |
| (+) | EQ | 903,149.9 | 947,157.6 | -4.6 |
| | | | | |
| (=) | EL | 2,543,731.9 | 2,469,102.7 | 3.0 |