MANUFACTURING MATTERS!

WMEF MANUFACTURING SOLUTIONS

RISING TO THE CHALLENGE

Streamlining Your Automation Acquisition Process

Bryan Swanson

SVP and Director of Commercial Banking

First Business Bank

Member FDIC

First Business Bank

"Banking has become a commodity" …or has it?

The financial services industry is highly competitive due to ongoing industry consolidation and new entrants into the market.

- Number of Commercial Bank Charters:
  - 1934 – mid 1980's ~ 14,000
  - 1990 – 12,200
  - 2000 – 8,200
  - 2007 – 7,288
  - 2021 – 4,236
- Number of fintech start-ups: 30,000, representing a $179 Billion Market

If banking is a commodity, competing solely on price, why are fintechs entering the financial services industry at a rapid pace?

Fintechs understand that to effectively compete in the financial services industry requires value-added solutions targeting a specific type of client.

Providing value-added solutions to business clients is the backbone of Business Advisory Services.

Business Advisory Services

Business Advisory Services is a program intended to provide value-added solutions to clients through an analysis of the company's financial statements from the lens of a business owner. The solutions are centered around three areas of focus:

- Cash flow creation
- Business value creation
- Debt capacity

What is Cash Flow Creation?

Cash flow creation assesses the amount of cash that can be generated by the company through more effective management of the key working capital inputs – inventory, receivables, and payables.

Uses the company's historical financial information and peer industry data to assess the company's potential to increase its cash.

Access to additional cash provides a company with the options to invest in its growth, reduce debt costs due to rising rates, or purchase additional equipment.

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Case Study – ABC Manufacturing

Accounts Receivable Turn Analysis	
Annual Revenues	$ 26,813
Current A/R Days on Hand	51.5
Peer Industry Average A/R Days on Hand	32
Number of Days Improvement	19.5
Cash Flow Generated Annually by Improving A/R DOH to historical levels	$ 1,432
Cash Flow Generated Annually by Improving A/R DOH by One Day	$ 73

Inventory Turn Analysis	
Annual Purchases (In Thousands)	$18,246
Current Inventory Days on Hand	143
Peer Industry Average Inventory Days on Hand	136
Number of Days Improvement	7
Cash Flow Generated Annually by Improving Inventory DOH to historical levels	$ 350
Cash Flow Generated Annually by Improving Inventory DOH by One Day	$ 50

Accounts Payable Analysis	
Annual COGS (Net of Depreciation)	$18,246
Current A/P Days on Hand	11.4
A/P is generally due in 30 days*	30
Number of Days Delayed	18.6
Cash Flow Generated Annually by Pushing out Payable DOH to 30 days and/or historical levels	$ 930
Cash Flow Generated Annually by pushing out A/P DOH by One Day	$ 50

Total cash flow created by improving Working Capital Days on Hand to Peer Levels / Vendor Terms	**$2,712,000**
Total Cash flow created by improving Working Capital Days on Hand by ONE day	**$ 173,000**

What is Business Value Creation?

Business Value Creation is the process of identifying opportunities to increase the value of the company.

Uses the historical financial information, peer industry data and assessment of the company's strategic objectives to assess the company's options to increase the value of the business.

Every business owner will at some point decide to transition the company to a family member, their employees, or a third party. Planning for the eventual succession of the business takes time to ensure a maximum return.

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What is Debt Capacity?

Debt Capacity represents the amount of debt that a company can safely take on to fund its working capital and strategic objectives.

Using debt is an effective way to acquire new equipment, purchase or expand a facility, or support its working capital – thereby achieving the company's strategic objectives.

Case Study – ABC Manufacturing

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Debt Capacity based on existing EBITDA*

In Thousands		2022
Net Free Cash Flow (EBITDA)	$	3,076
(+) Documented Adjustments	$	-
(-) Maintenance CapEx	$	-
Net Free Cash Flow	$	3,076
Interest Rate		6.00%
Tenor (in years)		5
Debt Capacity based on Discounted Cash Flow Analysis		**$12,957.23**

Debt Capacity including Business Value Creation Improvements (Assumes Fully Collateralized Debt)

In Thousands		2022
Net Free Cash Flow (EBITDA)	$	3,076
(+) Business Value Creation Improvements	$	2,606
(-) Maintenance CapEx	$	-
Net Free Cash Flow	$	5,682
Interest Rate		6.00%
Tenor (in years)		5
Debt Capacity based on Discounted Cash Flow Analysis		**$23,934.65**

Line Commitment Calculator based on current working capital turns

Maximum Line of Credit Calculator	
Accounts Receivable Days on Hand	51
(+) Inventory Days on Hand	143
(-) A/P Days on Hand	11
Cash Flow Cycle	183
COGS (Net of Depr & In Thousands)	$ 18,246
Maximum Line of Credit (In Thousands)	**$ 9,148**

Line Commitment Calculator based on BEST working capital turns

Maximum Line of Credit Calculator	
Accounts Receivable Days on Hand	32
(+) Inventory Days on Hand	136
(-) A/P Days on Hand	30
Cash Flow Cycle	138
COGS (Net of Depr & In Thousands)	$ 18,246
Maximum Line of Credit (In Thousands)	**$ 6,898**

Proforma Analysis – Is this Upgrade Worth It?

- ROI – Most Automation Upgrades have an ROI in 1 – 3 Years
- Efficiencies Gained
  - Throughput – Does this automation increase production and is there demand for this increased production?
  - Labor efficiencies per unit
  - Material efficiencies per unit

Proforma Example Assumptions

- Robot Purchase Price - $1,000,000
- Unit Price of Product Produced - $10
- Current Gross Margin – 30%
- Current Units Produced – 100,000 Units / Year
- Throughput Gained – 80,000 Units / Year
- Labor Efficiency Improvement to Gross Margin – 25%
- Material Efficiency Improvement to Gross Margin – 5%
- Total Gross Margin Improvement – 30%
- New Gross Margin – 60%

Proforma Example ROI Calculation

- 30% Gross Margin Improvement on 100,000 Current Units Produced @ $10/Unit = $300,000
- 60% Gross Margin on 80,000 Additional Units Produced @ 10/Unit = $480,000
- Total Gross Margin Improvement = $780,000
- ROI in Years = $1,000,000 Cost / $780,000 Gross Margin Improvement
- = 1.28 Year ROI

Typical Financing Terms

- Conventional Bank Loan
  - 80% to 90% financing
  - 5-year amortization
- Conventional Lease
  - Up to 100% financing
  - Up to 7-year amortization
  - Rate may be higher

- Use Your Capital Budget to Establish a Guidance Line / Conditional Credit Facility
- Other Financing Options
  - SBA 504 Loan
  - SBA 7(a) Loan
  - Community Development authorities
- Consult Tax Advisor

Summary

- Analyze to improve your cash flow / cash generation
- Know your debt capacity
- Work with a bank that's engaged and forward looking
- Analyze the return on investment
- Maintain a capital budget
- Establish a guidance line based on capital budget

What Manufactures May Overlook

- Infrastructure Support of Automation
  - Install costs
  - Training costs
  - Maintenance, service, and support
  - Performance management
  - Can result in big misses on assumptions
- Going from 0 to 1 Robot is the Greatest Challenge
  - Automation consultant
  - Single source solution

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Thank You for Participating

Please complete the brief session survey to provide feedback to the presenter(s) and input for future editions of Manufacturing Matters!