



What Your Financial Statements Tell You (and Your Bank) About Your Business

Highlights



Key financial ratios and how to interpret them: How business owners can get a quick view into the financial health and performance of their business



Financial performance factors banks will consider about your company's position and creditworthiness



The value of outside opinion and how advisors and partners such as accountants, consultants and bankers can help you to improve your company's financial position

Few endeavors are more challenging than launching and growing a business, but the rewards can be extraordinary. To get and keep a business on a growth trajectory, business owners need to have a firm grasp of the key financial aspects of their operations. There's little margin for bad decisions or indecision for business owners who face obstacles every day in their quest for success. However, having a clear understanding of what your financial statements are telling you about how your company is performing can provide the vital insights needed to navigate the twists and turns of creating a successful enterprise.



Your Financial Statements Contain a Goldmine of Information

Analyzing one type of financial statement is not sufficient to diagnose your business' financial health. However, when combined, a complete analysis of several types of financial statements

can empower you to make business decisions with conviction. The combination of a balance sheet, income statement, and cash flow statement contains vital financial information about your business from three different vantage points.

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Key Financial Statement Indicators

BALANCE SHEET KEY INDICATORS	WHAT THEY TELL YOU AND YOUR BANK
<p>The Balance Sheet shows what assets and liabilities the company has and the amount invested in the business.</p> <p>Current Ratio $\text{Current Assets} \div \text{Current Liabilities}^*$</p> <p>Quick Ratio $(\text{current assets} - \text{inventory}) \div \text{current liabilities}$</p> <p>Working Capital $\text{current assets} - \text{current liabilities}$</p>	<ul style="list-style-type: none">• What are my total assets at the end of this month/year?• How much debt did the company accumulate this year?• How much did I spend on supplies this year? <p>Indicates your business' ability to pay obligations in a timely manner (within 12 months); 1.5 or higher is considered sufficient.</p> <p>Also known as the Acid-test or Liquidity ratio, measures the ability of a business to pay its short-term liabilities by having assets that are readily convertible into cash. These assets are, namely, cash, marketable securities and accounts receivable. These assets are known as "quick" assets since they can quickly be converted into cash. Above 1 is generally regarded as safe.</p> <p>Measures a company's efficiency and the health of its short-term finances.</p>
INCOME STATEMENT KEY INDICATORS	WHAT THEY TELL YOU AND YOUR BANK
<p>The Income Statement shows what sales and expenses are and if the business is making a profit.</p> <p>Gross Profit Margin $(\text{revenue} - \text{cost of goods sold}) \div \text{revenue}$</p> <p>Net Profit $\text{total revenue} - \text{total expenses}$</p> <p>Net Profit Margin $\text{net profit} \div \text{total revenue}$</p>	<ul style="list-style-type: none">• What were my sales this month/year?• How much were my expenses this month/year?• How much profit did I make this month/year? <p>Indicates how well you are pricing your product by determining the percentage of funds remaining after removing the cost of goods sold from the revenue figures.</p> <p>Considered the most important indicator of financial health, net profit, also referred to as the bottom line, measures the profitability of your business after accounting for all costs and taxes.</p> <p>Represents the percentage of profit from business operations after you've deducted business operating expenses, interest expense, taxes and preferred stock dividends from revenues.</p>
STATEMENT OF CASH FLOW	WHAT THEY TELL YOU AND YOUR BANK
<p>The Cash Flow Statement shows how much cash is coming in and going out of the business.</p> <p>Cash Flow Statement</p>	<ul style="list-style-type: none">• How much cash has the company brought in this month/year?• How is the company doing in generating cash to pay its debt obligations and fund its operating expenses?• When cash went out of the business this month/year, how much of it went where? <p>Shows how your spending your earning and spending your money with each of your company's incoming and outgoing transactions.</p>

* Current assets are defined as cash, inventory and accounts receivable; Current liabilities are defined as short term debt.

Highlights (cont'd)

- Financial statements should be completed in a certain order: *income statement, statement of owner's equity and balance sheet*. These financial statements are interrated because numbers generated on one financial statement appear on other financial statements.
- Breakeven analysis is a technique used to determine the level of sales needed to break even—to operate at a sales level at which you have neither profit nor loss.
- To break even, total sales revenue must exactly equal all your expenses (both variable and fixed costs).
- To calculate the breakeven point in units to be sold, you divide fixed costs by contribution margin per unit (selling price per unit minus variable cost per unit).
- This technique can also be used to determine the level of sales needed to obtain a specific profit.

Tapping the Financial Expertise of Your Trusted Advisors

Many business owners create their own financial statements using business accounting software, but they are sometimes less adept at interpreting them. Even after familiarizing themselves with how to read them, and how to calculate ratios, business owners are often too blinded by their biases to form objective assessments about the condition of their business.

That is why business owners should review their financial statements with a C.P.A. or business banker, who can provide an unbiased assessment. Your business banker can also provide feedback on your qualification status for business financing should you need it in the future.

Know-how makes your business a success story.

For over 175 years, People's United Bank has begun every business banking relationship by taking the time to listen and learn about each individual business. That's how we're able to craft superior solutions that specifically address our customers' needs.

We recognize that successful businesses require a variety of financial services, and we deliver these services locally. Our business banking experts serve as your key point of contact. All of which sets the stage for a relationship based on trust and expertise.

Business Deposit Products	Business Credit Products*	Business Financial Services
<ul style="list-style-type: none">Business Advantage CheckingPremier Business CheckingBusiness Money Market, Savings and Certificates of Deposit (CDs)Treasury ManagementE-Treasury+ Online BankingRemote Deposit CaptureBusiness Mobile Banking	<ul style="list-style-type: none">Business Credit Lines and Term LoansCommercial MortgagesEquipment FinancingAsset-Based LendingBusiness Credit Cards with Rewards	<ul style="list-style-type: none">Merchant Card Processing¹Business Insurance²Retirement/401(k) Plan ServicesBusiness Succession PlanningWorkplace Banking

*Application and credit approval required.
¹ People's United Merchant Services, LLC (PUMS) is a joint venture of People's United Bank, N.A. and Worldpay, LLC. PUMS is an indirect subsidiary of People's United Bank. Worldpay and People's United Bank are not affiliated companies. Credit approval required.
² Insurance available through People's United Insurance Agency, a subsidiary of People's United Bank. All accounts are subject to underwriting approval. People's United Bank, NA and its affiliates do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

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