Operational Finance (I). A Model of Analysis

Introduction

The purpose of the Operational Finance course is twofold:

− Give a simple model of financial analysis. That is the task of this technical note.
− Introduce you to the financing required by the current operations of a company (which is specifically the content of operational finance). This will be explained in the next technical note, FN-471-E, “Operational Finance (II). Diagnosis and Forecast”.

By financial analysis, in a broader sense, we mean the analysis of a company’s financial statements, basically the income statement and the balance sheet. In a narrower sense, we use the word “financing” to refer to a company’s balance sheet, or how it invests and is financed. In this technical note we will cover both income statement and balance sheet analysis, but with much more emphasis on the analysis of the balance sheet. In fact, that is a primary goal of this note: to show that the balance sheet exists and is important, even though most people care solely about the income statement.

In the second note we will complete our model of financial analysis with an explanation of the financing required by current operations and how to make financial statement forecasts.

Now we may start with our explanation of this rather simple —but effective— model of financial analysis. To illustrate the explanation, we will use the example of the fictitious company e-computerland. This is a new start-up company that sells computers through the internet. It is experiencing rapid growth thanks to a generous credit policy —it offers customers payment terms of between 60 and 180 days— product quality, and fast delivery. Its web site is simple, complete and fast. The company’s financial statements are given next:¹

¹ With the financial statements we have included —in italics— a variety of ratios and other information that we will be discussing in this technical note but that companies themselves do not usually provide.
Financial Statements of e-computerl@nd

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>10,000</td>
<td>20,000</td>
<td>30,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>8,000</td>
<td>16,200</td>
<td>24,600</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Gross margin</td>
<td>2,000</td>
<td>3,800</td>
<td>5,400</td>
<td></td>
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<tr>
<td>Selling expenses</td>
<td>1,000</td>
<td>2,000</td>
<td>3,000</td>
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<td></td>
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</tr>
<tr>
<td>Overhead</td>
<td>100</td>
<td>300</td>
<td>400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before taxes</td>
<td>900</td>
<td>1,500</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>270</td>
<td>450</td>
<td>600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>630</td>
<td>1,050</td>
<td>1,400</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Profitability ratios**

- **Growth of sales**: 150% 100% 50%
- **Gross margin**: 20% 19% 18%
- **Return on sales (ROS)**: 6.3% 5.2% 4.7%
- **Return on equity (ROE)**: 17% 22% 23%
- **Return on assets (ROA)**: 8% 15% 18%

**Value creation**

- **Return on sales (ROS)**: 6.3% 5.2% 4.7%
- **Sales/Assets**: 1.3 2.0 2.1
- **Assets/Equity**: 2.1 2.2 2.3

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>SUF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>286</td>
<td>50</td>
<td>50</td>
<td>–236</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,667</td>
<td>3,333</td>
<td>6,667</td>
<td>5,000</td>
</tr>
<tr>
<td>Stock</td>
<td>667</td>
<td>1,350</td>
<td>1,367</td>
<td>700</td>
</tr>
<tr>
<td>Current assets</td>
<td>2,820</td>
<td>4,733</td>
<td>8,083</td>
<td></td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>5,000</td>
<td>5,500</td>
<td>6,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>7,620</td>
<td>10,233</td>
<td>14,083</td>
<td>6,464</td>
</tr>
<tr>
<td>Payables</td>
<td>720</td>
<td>1,407</td>
<td>2,051</td>
<td>1,332</td>
</tr>
<tr>
<td>Taxes</td>
<td>270</td>
<td>450</td>
<td>600</td>
<td>330</td>
</tr>
<tr>
<td>Credit</td>
<td>0</td>
<td>1,196</td>
<td>3,352</td>
<td>3,352</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>990</td>
<td>3,053</td>
<td>6,003</td>
<td></td>
</tr>
<tr>
<td>Loan</td>
<td>3,000</td>
<td>2,500</td>
<td>2,000</td>
<td>–1,000</td>
</tr>
<tr>
<td>Equity</td>
<td>3,000</td>
<td>3,630</td>
<td>4,680</td>
<td>1,680</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>630</td>
<td>1,050</td>
<td>1,400</td>
<td>770</td>
</tr>
<tr>
<td>Total equity + liabilities</td>
<td>7,620</td>
<td>10,233</td>
<td>14,083</td>
<td></td>
</tr>
</tbody>
</table>

**Leverage**: 1.1 1.2 1.3

**Operational ratios**

- **Receivables in days**: 60 60 80
- **Stocks in days**: 30 30 20
- **Payables in days**: 30 30 30

**Financial position**

- **NOF**: 1,630 2,876 5,432
- **WC**: 1,630 1,680 2,080
- **Credit needed**: 0 1,196 3,352
- **Pro memoria. Purchases**: 8,637 16,883 24,617
- **Cost of debt**: 10%
Analysis of the Business from a Bird's Eye View

The first task before getting into the numbers is to try to understand a little bit about the business. Only if we understand the business will we be able to analyze the financial statements, which will, after all, be a reflection of the company’s policies and performance. The following are typical questions that an analyst would ask the company’s management:

- **Sales and customers**
  - What does the company sell? How much does it sell, or how big is the company?
  - Are sales seasonal or uniform throughout the year? Cyclical or stable against crisis?
  - Who does it sell to? Customers: many or few? Small or big?

- **Operations and product.** Seasonal or uniform production throughout the year? Production on demand or serial? Long or short production process?

- **Management.** Who is in charge? Is she experienced? Reliable as a person and as a businesswoman?

- **Strategy.** Competitive advantages of the company, or crucial points of its strategy.

In the case of e-computer@nd we have the following information:

**E-computer** sells computers through the Internet to individuals and small companies, mostly in the metropolitan area of Buenos Aires, but also in the Mercosur market (Argentina, Uruguay, Paraguay, Brazil, and Chile). Sales last year were about 30 million pesos, equivalent to 30 million euros (30€, units expressed in millions of euros).

The company outsources the manufacturing of the computers to Asian contractors, which assemble the different parts of the PC to e-computer’s specifications. The range of products is small, but high quality. E-computer makes an effort to sell products with the best components. The website is simple, very informative and fast, and requires a lot of investment.

The management team is made up of the 3 founders of the company —two computer engineers and an MBA graduate, Carmen Acosta, who acts as CEO. They started the company in 1998, following the boom in e-business.

So far, e-computer has experienced considerable growth, thanks to the following key aspects of its strategy: quality of the product at a very low price; reliable and fast delivery; very good payment terms offered to customers; and quality of the website.

Armed with this information, we may now tackle the analysis of the financial statements. Let’s start with the income statement.

**Income Statement Analysis. Profitability**

To avoid getting tangled up with so many numbers I recommend you take the following rather simple but insightful steps:

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2 Analyzing a company’s financial statements without knowing the business would give us a purely theoretical and blind analysis, and we would probably draw the wrong conclusions. An experienced analyst is able to figure out what the business is and how it works just by looking at a company’s financial statements, but this requires a good deal of experience.
− Look at the growth of sales. Growing sales will probably mean growing financial needs (growing credit). Growth can also be an indicator of the potential of the business.

− Identify the big numbers or main items in the income statement. These will be the relevant elements when it comes to diagnosing the company’s situation and preparing an action plan. If the income statement is very detailed, with a large number of items, it may be advisable to group together items of a similar nature. As a general recommendation, the fewer items there are in the income statement, the easier it will be to analyze it.

− Profitability ratios. We will use three main ratios:
  • Gross margin ratio = Gross Margin/Sales
  • Return on sales (ROS) = Net income/Sales
  • Return on equity (ROE) = Net income/Equity

What is a reasonable gross margin ratio? What is a reasonable ROS? There is no clear answer. It depends on the industry and the company. For instance, commercial companies usually have small ROS and big sales, while utilities have big ROS and smaller sales. To draw conclusions from these ratios we have to:
  • compare them with the ratios of the industry or the main competitors
  • see how these ratios have evolved in recent years.

− We must finish our analysis with an answer to the question, Is the company profitable? To answer this, look at the ROE, or return obtained by investors (shareholders), and compare it with the ROE obtained by other companies. Also, we may compare the ROE with the risk-free rate or with the return obtained by those who lend money to the company. Since investing in the company is more risky than lending money to the company we should expect a higher return for investors. This extra return is called the risk premium. So look at the size of this risk premium to see if the investment in the company is worth it.

− Finally, in some cases it may be necessary to calculate the income statement items as a percentage of sales and look at the evolution of each item, to see if there has been a deterioration or an improvement in any of them. Also, it may be advisable to conduct a sensitivity analysis to see how net income would vary with changes in some of the items. This will give us an idea –sometimes vague– about the company’s “operational risk”, which means the variability of net income due to the variability of sales or costs. For instance, a utility (e.g. an electricity company) will usually have very fixed revenue and costs, so its net income will also be pretty stable, while a car manufacturer may have more volatile sales and income.

Let us now look at the results of our analysis of e-computer. First of all, we see that the company has grown very fast, with an average of 100% annual growth in the last three years, but slowing. Not surprising in a start-up company.

Looking at the income statement in %, we see that the main item is the CGS, representing around 80% of sales and increasing. Selling expenses and overhead are under control (same percentage of sales) and not very significant.
The company enjoys a nice 20%-18% gross margin. Good news! Usually the problems start when the gross margin is small. Not in this case, though it is decreasing. We should ask the management why this is so: more expensive purchases? Lower prices due to tougher competition? The return on sales is acceptable, 5.4% on average, but decreasing, due to the decreasing gross margin. The ROE is very good and increasing.

**Balance Sheet Analysis**

- First we identify the *big numbers in the balance sheet*. These items will be the main investments and main sources of funds for the company. If the company is having financial troubles, the problems will probably be in the big numbers.

- *Warning signs*. Typically, decreasing cash in recent years –or months– or increasing payables are a sign of financial distress. There may be many exceptions to this rule – there are no fixed rules in financial analysis!– but usually it is worth beginning the analysis with a look at these two items. But be careful, these are symptoms not causes of a company's financial problems!

- Calculate the *Leverage ratio = Liabilities/Equity*. This ratio gives us a first indication of the company’s financial health. Theoretically, more equity (lower ratio) means a safer financial situation. But again, there are no fixed rules. The leverage ratio tells us how much money the owners have invested in the company and how much other stakeholders have invested. Remember that many stakeholders contribute to the financing of the company, not only the shareholders.

- *Sources and Uses of Funds (SUF)*, also called sources and applications of funds (SAF). This is probably the most useful tool for understanding the financial evolution of a company. The SUF is given by the difference between this year's balance sheet and last year's. If the company is having financial problems we will compare the most recent balance sheet with the last one in which the company was in good financial position.

Any increase in assets represents a use of funds and may indicate why the company needs more money. Also, the uses of funds give us an idea of the company’s strategy or where it is investing its money. Conversely, a decrease in assets represents a source of funds, or funds available for other uses (other investments, paying off debt, dividends, etc.).

An increase in liabilities or equity means an inflow or source of funds and indicates where the company is getting its money from. Conversely, a decrease in liabilities is an application or use of funds (e.g. a decrease in debt is a use of funds because we pay the debt back).

The SUF will identify the items of the balance sheet that are consuming funds. They may be the source of the financial problems, so we will focus our investigation on them. But this is not enough; we need to know the cause. For example, assume that we identify:

- Big increase in receivables. But is this increase due to a lengthening of the collection period? In other words, is the collection department to blame for our financial problems?

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3 There are many other ratios that express the same idea of the ratio of liabilities to equity. They include: Solvency ratio (equity/liabilities); Debt ratio (liabilities/total assets); Fixed asset coverage (long term debt + equity/net fixed assets). Which should you use? The one you feel most comfortable with, or the one you can understand best. But they all give the same information.
Big increase in inventory. But is this increase due to a worsening of the purchasing policy? In other words, do we have too much stock? Is the purchasing manager to blame for our financial problems?

Big increase in payables. Is it because we are taking advantage of our suppliers by delaying payments?

In order to answer these questions we need to calculate the so-called operational ratios, which are explained in the following section. But first, let’s see the results of the balance sheet analysis in the case of e-computerl@nd.

The big numbers. We see that the company’s main investments, in the year 2002, are in receivables and fixed assets. The main sources of financing are equity, credit, loan and payables.

Warning signs. Cash has decreased in the last two years to 50€. Also, and more significantly, payables have increased a lot, and so has credit. We will have to investigate why, and this is precisely the task of the analyst. Leverage has increased slightly from 1 to 1.3. Not a cause for alarm.

Among e-computerl@nd’s financial statements we find the statements of sources and uses of funds (SUF) for the years 2000 to 2002. We only look at the main changes, since they will be the causes of the company’s financial problems, if it has any. The company has almost doubled its assets, due to a huge increase in receivables (5,000) and a more moderate increase in fixed assets (1,000). We will have to investigate why the company has increased receivables at such a dramatic rate. The other use of funds has been a decrease of the loan (1,000). The main sources of financing have been bank credit (3,352), equity (1,680 + 770) –probably due to retained earnings, though it could also be new capital from shareholders– and suppliers (1,332).

We conclude that the company may be in financial trouble (increasing need of credit) and we may have found the reason –an increase in receivables. We will try to find out who is to blame for that increase.

Operational Ratios

Receivables in Days, or Collection Period

Meaning

What I have in receivables has been sold during the last “x” days. Or in other words, everything we sold during the last “x” days has not been collected yet. This ratio gives us the number of days the company takes, on average, to collect from customers.

Calculation

- During 2002 we sold 30,000€, with daily sales of 30,000€/360 days or 83.3€ per day.
- Therefore, the 6,667€ we have in receivables has been sold in the last 80 days (6,667€/83.3€ per day).
- Another explanation: The sales of 30,000€ have been made in 360 days, so the 6,667€ that we have in receivables will have been sold during “x” days => 6,667€/30,000€ x 360 days = 80 days.

Formula: \[
\text{Days of collection} = \frac{\text{Receivables}}{\text{Daily sales}} \\
= \frac{\text{Receivables} \times 360}{\text{Sales}}
\]
Interpretation

We use the days of collection ratio to try to find out who is to blame for the increase in the dollar amount invested in receivables. If there is an increase in the days of collection, it may be because the collection department is not doing its work properly. But let’s not rush to cut off heads. It may also be because the creditworthiness of the customers has deteriorated, or because the economic situation is worse and everybody is delaying payments. Obviously, companies try to keep their collection period very short, since that means a small investment in receivables. But very often the company’s commercial policy, industry practices or the quality of the customers require a long collection period, and management should be aware that that means big investments in receivables.

Stocks in Days, or Inventory Period

Meaning

What I have in inventory will be sold during the next “x” days. Or in other words, everything we are going to sell in the next “x” days is already in the warehouse. This ratio tells us the number of days of sales the company keeps, on average, in the warehouse. The inverse is called “turnover”. For example, if I keep 30 days of sales in the warehouse, my turnover is 360/30 days = 12 times; in other words, I change my inventory 12 times a year.

Calculation

- Daily sales in the next few days = Sales/360 days = 30,000€/360 days or 83.3€ per day. See important remark in footnote.  
- Daily CGS in the next few days = daily sales x (1 – margin) = 83.3€ x (1 – 0.18) = 68.3€ per day. So we expect to sell 83.3€ per day and the CGS of this daily sale is 68.3€.
- If we have inventory for a value of 1,367€, we have goods for “x” days of sales = Days of inventory = inventory/daily CGS => 1,367€/68.3€ = 20 days.
- Another explanation: With a CGS of 24,600€ we cover one year of sales; therefore, with 1,367€ we will cover the sales of 20 days.

Formula: Days of stocks = Inventory/Daily CGS  
= Inventory x 360 days/CGS  
= Inventory x 360 days/Sales x (1– margin)

Interpretation

We use the days of inventory ratio to try to find out who is to blame for the increase in the dollar amount invested in stocks. If stocks increase, it may be because of an increase in days of inventory due to mismanagement by the purchasing department. But be careful, there

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4 In this example we assume that sales at the beginning of next year (2003) will be the same as sales at the end of last year (2002). This a sensible hypothesis. But in the case of companies with high growth it may be more accurate to forecast actual sales for next year as follows: Sales next year = sales last year x (1 + g), where “g” is the rate of growth of sales. Example: If we expect sales growth of 33% in 2003, future sales will be: 30,000€ x (1 + 0.33) = 40,000€.
might be other reasons; for instance, if we expect to sell more, we will have more € in stock, even though our days of inventory remain constant. As in the case of receivables, fewer days of stocks mean less investment in stocks and therefore lower financial needs. This is one of the reasons why “just in time” stock management has been adopted everywhere.

**Payables in Days, or Payment Period**

**Meaning**

What I have in payables has been purchased during the last “x” days. Or in other words, everything we purchased during the last “x” days has not been paid for yet. This ratio gives us the number of days the company takes, on average, to pay its suppliers.

**Calculation**

- During 2002 we purchased 24,617€, with a daily purchase of 68.4€ per day (24,617€/360 days).
- Therefore, the 2,051€ we have in payables will have been purchased during the last 30 days (2,051€/68.4€).
- Another explanation: The purchases of 24,617€ were made during 360 days, so the 2,051€ we have in payables will have been purchased during “x” days => 2,051€ x 360 days/24,617€ = 30 days.

*Formula:*  

\[
\text{Days of payment} = \frac{\text{Payables}}{\text{Daily Purchases}} = \frac{\text{Payables} \times 360 \text{ days}}{\text{Purchases}}
\]

**Interpretation**

We use the payment ratio to see whether we are sticking to our payment policy or delaying payments. A lengthening of the payment period usually but not always–remember, there are no fixed rules–means a deterioration of the company’s financial situation. A longer payment period is never a cause of financial problems, but very often a consequence and a sign of them. Remember that suppliers–payables–are a source of financing. If the company is in financial distress, it may be tempted to take advantage of its suppliers by stretching the payment period to gain extra financing. This strategy may work in a very limited number of cases—if the company is powerful–but most often it does not.

In the case of *e-computerl@nd* the collection period was 60 days, but increased to 80 days last year. This, together with the rapid growth, has caused the big increase of 5,000€ in receivables, with the subsequent huge need for credit. The company has tried to reduce its financial needs by tightening the inventory period from 30 days to 20 days. In fact, the increase in inventory (700€) has not been all that big. *E-computerl@nd* has kept the payment period at 30 days, probably to assure good relations with suppliers. So, the increase in payables does not, in this case, mean worsening payment terms. With this, we already have a diagnosis of the company’s financial problems: *e-computerl@nd* needs more and more credit because of increasing sales and the generous collection period. We know from the business analysis that the increase in the collection period is part of the company’s strategy, but it has important financial consequences.
With these three ratios we have enough to identify the causes of the company’s financial problems. Sometimes, we also use the days of cash ratio, although nowadays it is becoming less relevant. Let us see how it works, just in case you need it in the future. Then we will proceed to further explain the financing of operations and financial forecasting.

**Days of Cash**

In developed financial markets and economies, companies try to maintain minimum cash or zero cash in the balance sheet, since cash is an asset with little return. That renders the ratio “days of cash” almost useless. Nevertheless, some small companies or companies operating in developing economies may be forced to maintain a certain level of cash, necessary for operations. In this case the “days of cash” ratio may be used.

**Meaning**

What I have in cash is enough to cover the expenses of the next “x” days. This ratio gives me an idea of how big the cash account is compared with daily expenses.

**Calculation**

- The expenses of the next few days will be the sales of the next few days – net income. Therefore...
- Daily expenses = daily sales (1 – ROS) => 30,000€/360 days x (1 – 0.047) = 79.4€. See important remark in footnote5
- If we have 50€ in cash, we have cash for “x” days => cash/daily expenses => 50€/79.4€ = 0.6 days.
- Another explanation: The total expenses of 28,600€ (30,000€ – 1,400€) will be incurred during the next 360 days, so the 50€ we have in cash will be spent during the next “x” days => 50€ x 360/28,600€ = 0.6 days.

*Formula:* \[ \text{Days of cash} = \frac{\text{Cash} \times 360 \text{ days}}{\text{Expenses}} \]

\[ = \frac{\text{Cash} \times 360 \text{ days}}{\text{Sales} \times (1-\text{ROS})} \]

**Interpretation**

The bigger the cash, the sounder the company’s financial situation. But more cash means more assets that need to be financed. That is why nowadays companies try to maintain only the minimum cash necessary for operations. With today’s cash management programs this cash is virtually zero and the days of cash ratio is irrelevant.

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5 Same reasoning as for days of stocks. In this example we assume that sales and expenses at the beginning of next year (2003) will be the same as sales at the end of last year (2002). But we could calculate the days of cash based on higher future sales. Example: If we expect sales growth of 33% in 2003, future sales will be: 30,000€ x (1 + 0.33) = 40,000€.
Exhibit 1
Typical terms English-Spanish Used in the Cases of Operational Finance

<table>
<thead>
<tr>
<th>Cuenta de Resultados</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ventas o Ingresos</td>
<td>Net sales or Revenue</td>
</tr>
<tr>
<td>Coste mercancías vendidas</td>
<td>Cost of goods sold</td>
</tr>
<tr>
<td>Existencias iniciales</td>
<td>Beginning inventory</td>
</tr>
<tr>
<td>Compras</td>
<td>Purchases</td>
</tr>
<tr>
<td>Existencias finales</td>
<td>Ending inventory</td>
</tr>
<tr>
<td>Beneficio bruto o margen bruto</td>
<td>Gross profit or Gross margin</td>
</tr>
<tr>
<td>Gastos de personal o salarios</td>
<td>Personnel expenses or Labor or Wages</td>
</tr>
<tr>
<td>Gastos de ventas</td>
<td>Selling expenses</td>
</tr>
<tr>
<td>Gastos generales</td>
<td>Overhead</td>
</tr>
<tr>
<td>Amortización</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Gastos de explotación</td>
<td>Operating expenses</td>
</tr>
<tr>
<td>Beneficio antes de intereses e impuestos</td>
<td>Income before interest and taxes</td>
</tr>
<tr>
<td>Intereses</td>
<td>Interest expense</td>
</tr>
<tr>
<td>Beneficio antes de impuestos</td>
<td>Net income before taxes</td>
</tr>
<tr>
<td>Provisión impuestos</td>
<td>Accrued taxes or income taxes</td>
</tr>
<tr>
<td>Beneficio neto</td>
<td>Net income or Profit after taxes</td>
</tr>
<tr>
<td>Crecimiento ventas</td>
<td>Growth of sales</td>
</tr>
<tr>
<td>Crecimiento esperado año 1991</td>
<td>Expected sales growth in 1991</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratios de rentabilidad</th>
<th>Profitability ratios or Ratios of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margen bruto/Ventas</td>
<td>Margin/Sales or Gross margin</td>
</tr>
<tr>
<td>Beneficio neto/Ventas</td>
<td>Net income/Sales or Return on Sales, ROS</td>
</tr>
<tr>
<td>ROA, Rentabilidad sobre activos</td>
<td>ROA, Return on assets</td>
</tr>
<tr>
<td>ROE, Rentabilidad sobre recursos propios</td>
<td>ROE, Return on equity</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Creación de valor</th>
<th>Value creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficio Ventas o margen</td>
<td>Net income/Sales or margin</td>
</tr>
<tr>
<td>Ventas/Activos o rotación</td>
<td>Sales/Assets or turnover</td>
</tr>
<tr>
<td>Activos/Rec. Propios o apalancamiento</td>
<td>Assets/Equity or leverage</td>
</tr>
</tbody>
</table>
Exhibit 1 (continued)

**Balance**
- Caja y bancos
- Inversiones financieras temporales
- Cuentas a cobrar o Clientes
- Existencias
  - Materia prima
  - producto en curso
  - producto acabado

**Balance Sheet**
- Cash
- Marketable securities
- Accounts receivable, net
- Inventory, Stocks raw material
- work in progress
- finished goods

- Current assets
  - Fixed assets net, Property net
  - Total assets
  - Accounts payable
  - Accrued expenses
  - Accrued taxes
  - Notes payable, trade
  - Notes payable, bank
  - Line of credit or credit
  - Long-term debt, current portion

**Activo circulante**
**Inmovilizado neto**

**Proveedores**
**Otros acreedores**

**Impuestos a pagar**
**Efectos a pagar – proveedores**
**Efectos a pagar – banco**
**Crédito o línea de crédito**

**Porción a corto de deuda a largo**

**Total exigible a corto**
**Préstamo bancario**
**Hipoteca**
**Deuda a largo plazo**

**Total exigible**
**Capital**
**Reservas**
**Beneficio del año**

**Fondos propios**

**Total pasivo**

**NOF** Necesidades operativas de fondos
**FM** Fondo de maniobra
**Crédito Bancario**

**Apalancamiento**

**Ratios operativos**
- Plazo cobro
- Plazo pago
- Plazo de existencias

**Ratios operativos**
- Collection period
- Payment period
- Days of Inventory