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Be Proactive in a Volatile Economic Climate to Help Drive Profitable Growth

November 1, 2022

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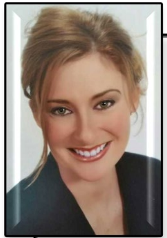

Jennifer Rohen,
Principal

Examine Operating Costs and Target Margins

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Cost Definitions

COGS/Cost of Revenue	Operating Expenses	Non-Operating Expenses
• Direct expenses a business pays to purchase or manufacture its products • Direct expenses used in providing or supporting services • COGS related overhead • Examples – direct labor, direct materials, shipping, payment processing for SaaS companies	• Expenses directly related to day-to-day business activities, but excluding COGS or cost of revenue • Examples – advertising, rent, non-COGS salaries, office supplies; some fixed, some variable	• Expenses indirectly related to operations that result from financing or investing activities • Examples – interest payments

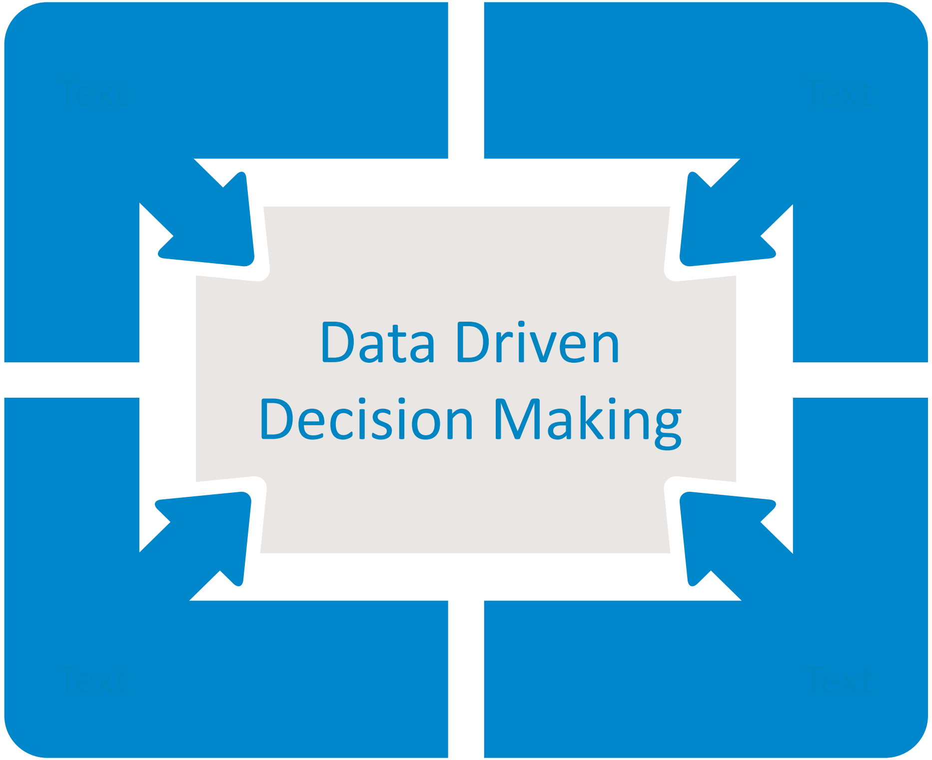
Operating Expenses – Deeper Dive

Operating Expenses

- IT
- Advertising
- Rent
- Payroll
- Repairs and maintenance (non-COGS)
- Utilities
- Insurance
- Travel
- Legal and accounting
- Depreciation (non-cash)

Define and Evaluate KPIs – Achieve Your Targets

- Establish objectives and work backwards
- Adapt forecast models to anticipate short and long-term economic impacts
- Benchmark and compare to prior year, forecast, competitors, recent trends



- Analyze profit margin ratios
- Calculate customer acquisition costs
- Utilize break-even for target margin and advertising/promotion mix
- Consider traditional metrics – revenue per FTE, OPEX vs. revenue growth, etc.

Drive Profit Margin - *Proactively*

Revenue

- ***Optimize*** revenue drivers to preserve lucrative revenue streams and consider discontinuing product lines
- ***Refine*** your prices. Based on value, market and what consumer is willing to pay, not Cost+
- ***Invest*** in your brand. Advertising and Marketing to increase perceived product/service value
- ***Adapt*** to changes in the economic landscape. New product line, customer segment

Expense

- ***Focus*** on strategic spending
- ***Invest*** in automation to drive peak performance
- ***Evaluate*** vendor relationships defer expenses when revenues are down to maintain healthy cash flow. Renegotiate contracts.
- ***Outsource*** and ***leverage*** the experience of a trained professionals while avoiding the steep cost associated with FTEs

Cash conversion cycle and working capital

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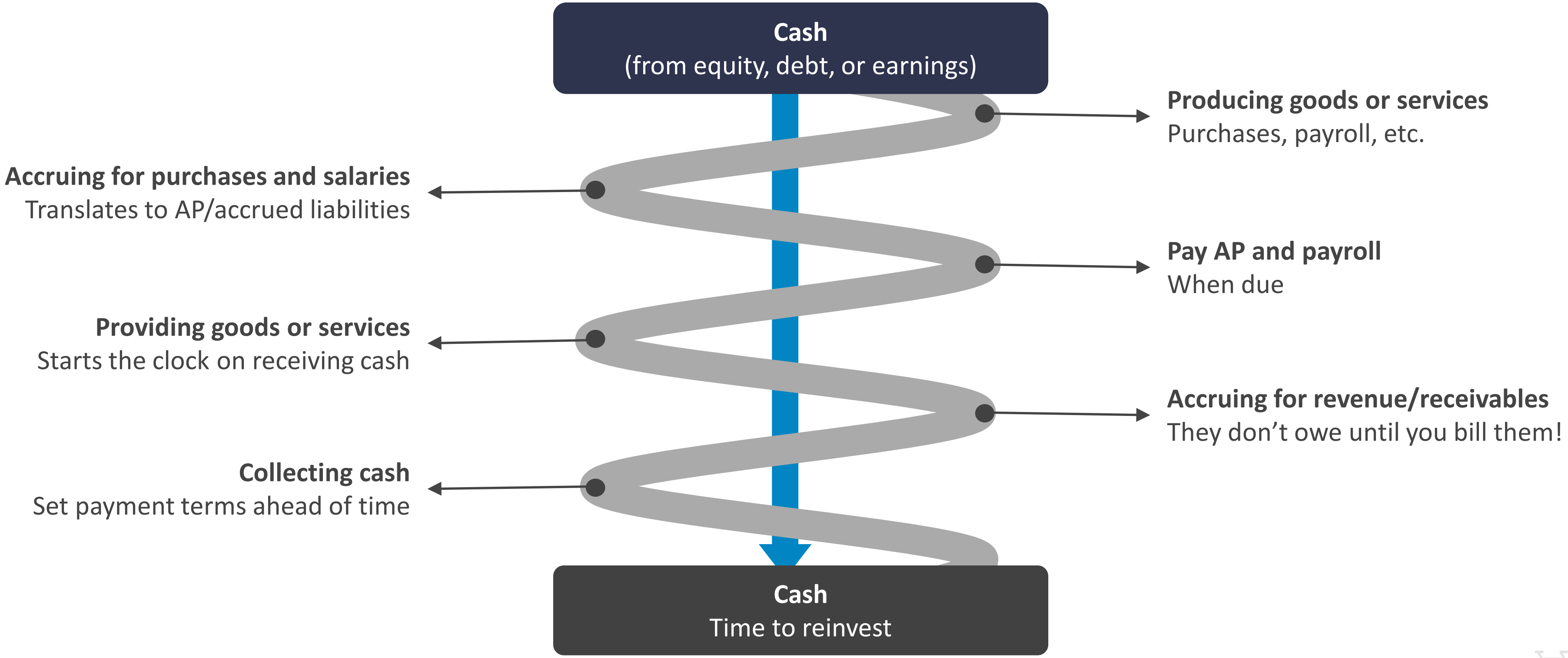
The Cash Conversion Cycle



Cash Conversion Cycle Formula

$$\text{Days of inventory outstanding (DIO)} = \frac{\text{Average inventories}}{\text{(COGS/365)}}$$

Lower numbers are better

$$\text{Days sales outstanding (DSO)} = \frac{\text{Average receivables}}{\text{(net sales/365)}}$$

Lower numbers are better

$$\text{Days payables outstanding (DPO)} = \frac{\text{Average payables + average accruals}}{\text{((COGS+operating expenses)/365)}}$$

Higher numbers are better

CCC - Scenario

Period	Dates	Days
Inventory to sales (DIO)	January 1-March 15	73
Sales to collected cash (DSO)	March 15-May 10	56
Purchases to payments (DPO)	January 1-January 10	-9
	Total cash conversion cycle	120

Spent cash on January 10 but didn't get it back until May 10! They lost cash for almost 1/3 of the year!

CCC – Strategies to Fight Back

Good strategies…

- Send invoices as early as possible
- Consider incentives for quick payment/incentivize sales team
- Purchase smaller quantities
- Factoring and lockbox/remote deposit
- Negotiating payment terms

…not good strategies

- Pay late and incur fees
- Give too steep of discounts
- Pay factoring and collecting costs that take away too much margin

Current government business incentives

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EMPLOYEE RETENTION CREDITS (ERC)

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Employee Retention Credit

The ERC is a fully refundable payroll tax credit for qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees.

For 2020, the credit amount is 50% of qualified wages (including allocable qualified health plan expenses) up to $10,000 for the year for each eligible employee.

For 2021, the credit amount is 70% of qualified wages (including allocable qualified health plan expenses), up to $10,000 per quarter for each eligible employee.

What organizations are eligible?

Fully or partially suspended operations due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings due to COVID-19; or

Experienced a significant decline in gross receipts during the calendar quarter

Have 3 years to amend from date of filing original 941

Employee Retention Credit Overview

	2020	2021
Covered Dates (payroll paid during period)	3/13/20 – 12/31/20	1/1/21 – 9/30/21
Employer size-based restrictions*	Over 100 fulltime employees can only include paid but not working	Over 500 fulltime employees can only include paid but not working
Quarterly Revenue Decline vs. same quarter 2019 ***OR***	>50%	>20%
Partial or full government shut-down	Actual dates organization was shut-down by government order	
Maximum eligible wages + healthcare cost per employee	$10,000/year	$10,000/quarter
% wages + healthcare eligible for credit	50%	70%
Maximum annual credit/employee	$5,000	$21,000

**FTE measured by number of FTE in 2019 according to ACA definition of fulltime employee*

WORK OPPORTUNITY TAX CREDIT (WOTC)

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Work Opportunity Tax Credit (WOTC)

Offset federal tax liability using WOTC.

When companies hire people from targeted categories and employ them for at least 120 hours, they can reduce federal tax liability by up to $9,600 per eligible employee.

Current law allows claims on qualified employees hired through December 31, 2025. It also expands eligibility to include those who have been unemployed for a long period.

STATE AND LOCAL CREDITS AND INCENTIVES

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State and Local Tax Credits and Incentives

Lower tax burden, enhance the return on capital investments, and improve overall business operations through the effective use of state and local credit and incentive strategies.

Often companies can realize significant benefits amounting to between 15-30% of total project investment.

Credits & Incentives Process Overview

We typically approach these types of projects in the three phases. Each phase is easily modified to fit the specific parameters of your business and project needs.

Strategic Evaluation
Phase I

- Collect and refine company and project information
- Identify potential opportunities
- Prepare project timeline and summary opportunity matrix

Government Discussions
Phase II

- Finalize negotiation strategy
- Assist with presenting project to relevant authorities
- Secure incentives offer and assist with applications

Compliance Assistance
Phase III

- Identify compliance team
- Provide close-out memo and incentives tracking spreadsheet
- Hold project debrief meeting

Ongoing Communication

Effective strategies on recruiting and retaining talent

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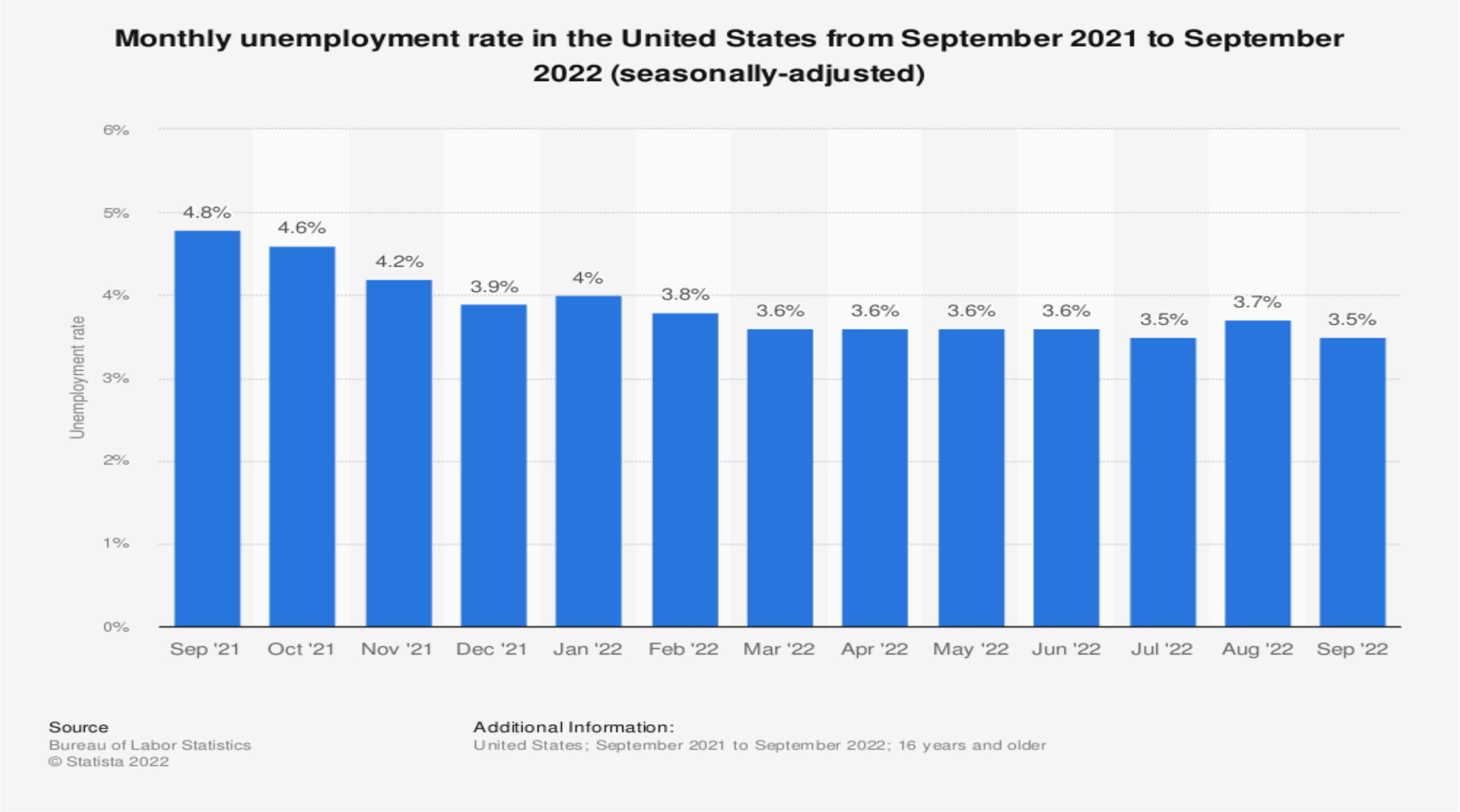
Workforce Statistics

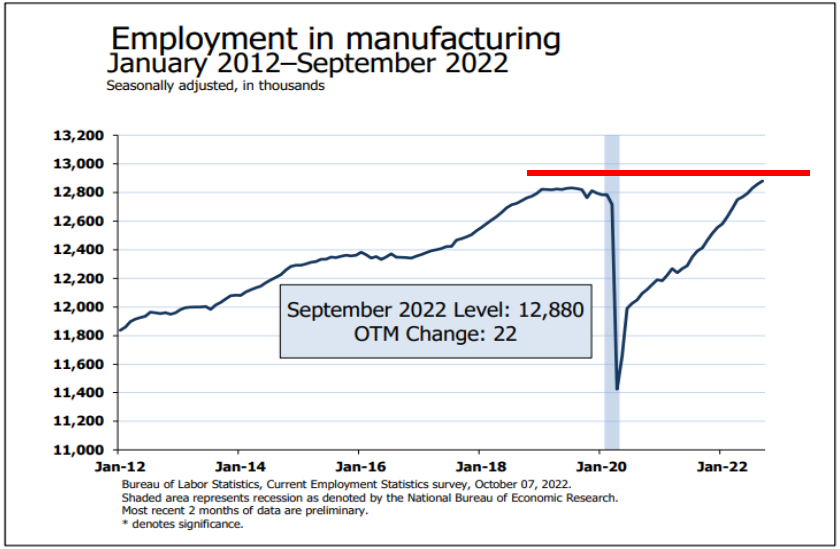


Manufacturing Workforce Statistics

CES Highlights

Release Date: October 7, 2022

Manufacturing



Workforce Shift

- 3.5% Unemployment
- 10.1 Million Open Jobs
- 1.7 jobs open per unemployed person
- 34.2% Quit rate

What's Most Important to **Candidates**

- Work-life balance
- Benefits (including "extras" like wellness, professional development)
- Better or no commute
- "Better" or "good/positive" culture
- Greater responsibility, opportunity to grow
- Hybrid work arrangements/flexibility
- DEI
- Employee appreciation and recognition practices

Recruitment starts with.....

- Organizational Culture
- Candidate experience – from the first "touch"
- Everything EXCEPT salary/compensation
- Clarity in connecting your message to your target market

Retention – Keeping Your Most Important Resource

- Rewards and Recognition
  - Referral programs to support recruitment
  - Recognition programs
    - Years of service
    - Goals achievement
    - Informal recognition (“shout outs”)
- Exit Interviews/Stay interviews
- Developing your managers
- Supporting learning paths and defining career paths
- Promote health and wellness

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