Thank you for joining us!
Today's webinar will start momentarily…

GRAY GRAY&GRAY®
CERTIFIED PUBLIC ACCOUNTANTS | ADVISORS
BEYOND THE NUMBERS

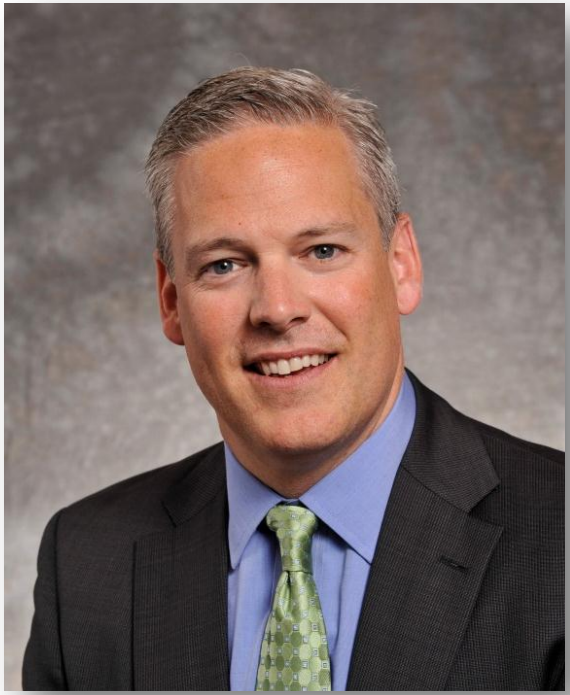
How to get to GOLD

Presented By:
Rich Feilteau, CPA

GRAY GRAY & GRAY®
CERTIFIED PUBLIC ACCOUNTANTS | ADVISORS
BEYOND THE NUMBERS

"Going beyond the numbers
to help McDonald's Owner Operators
achieve financial success."

Today's Presenter



Richard P. Feilteau, CPA
rfeilteau@gggcpas.com

How to Get to Gold

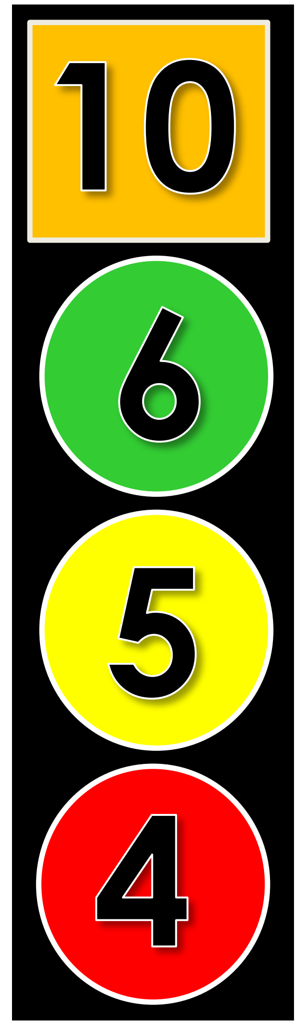
It's important to understand…

1. Ratios & Financial Viability
2. How business transactions and occurrences can positively or negatively affect ratios
3. How to control G&A, Draw & Debt Service
4. How to maximize profitability in the P&Ls
5. How to forecast the future and plan for it!

Understanding the 6 Point System

An Organization must achieve an overall score of 6 or greater to meet the financial viability measurement.

But how do you get to **GOLD**?



GOLD

PASS

WARNING

FAIL

Metrics

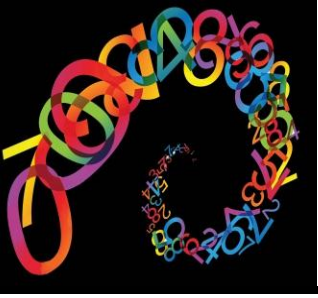
CFC Ratio	Points
1.4 or higher or No Debt	**4**
1.2 to 1.39	3
1.1 to 1.19	2
1.0 to 1.09	1
Less than 1.0	-1

TTM Liability Turnover Ratio – In Days

Positive (+) days indicate degrees of positive working capital; negative (-) days indicate a traditional liability turnover.

Greater than 10 Days +	**4**
0 to 10 Days +	3
Greater than 0 Days up to 7 Days -	2
Greater than 7 Days up to 14 Days -	0
Greater than 14 Days or Higher -	-2

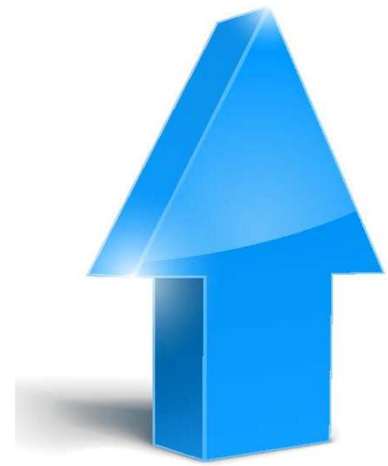
Equity	
Greater than 70% Equity	**2**
25% to 70%	1
Less than 25%	-2



Understanding Financial Viability

Ratios – Cash Flow Coverage

POSITIVE (INCREASES CFC)



- Increase in SOI and Profitability
- Decrease in G&A
- Decrease in Draw/Distributions
- Paying off and Retiring Debt (P&I)

NEGATIVE (DECREASES CFC)

- Decrease in Profitability and SOI
- Increase in G&A
- Increase in Draw/Distributions
- Taking on Additional Debt (P&I)

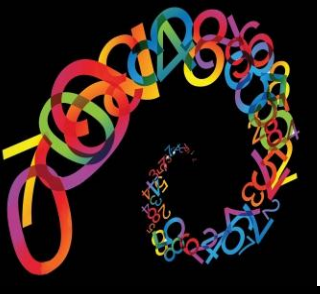
Ratios – Working Capital

POSITIVE (INCREASES WC)

- Increasing Cash and Current Assets
- Decreasing Current Liabilities
- Increase in Sales

NEGATIVE (DECREASES WC)

- Decreasing Cash and Current Assets
- Increasing Current Liabilities
- Decrease in Sales



Understanding Financial Viability

Ratios – Organizational Equity

POSITIVE (INCREASES NET EQUITY)

- Decrease in Debt Service
- Increase in Pre-Debt Cash Flow
- Limited Required Reinvestment

NEGATIVE (DECREASES NET EQUITY)

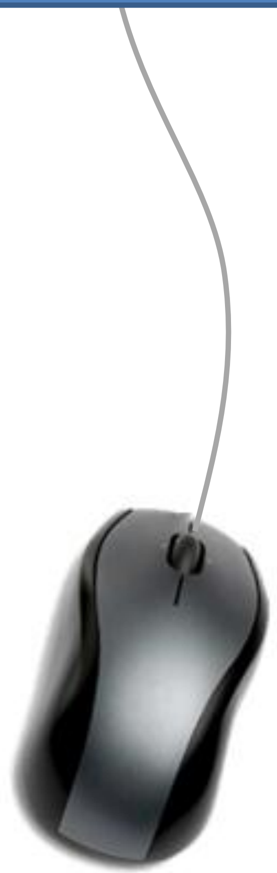
- Decrease in Pre-Debt Cash Flow
- Increases in Required Reinvestment
- Increase in Overall Debt

Understanding Financial Viability

Understand your financial viability and all of the metrics that can positively and negatively impact it.

- Know your current point total and how you can reach and sustain 6 points with the goal of achieving **GOLD**.
- Understand your financial sensitivity.

Web FFS Snapshot



Ratio Calculations

Run On: 4/1/2014

Organization Name & Number: RONALD McDONALD

Total Owner/Operators: 1

The measurements below are computed using financial statements loaded to Web FFS and DO NOT represent your Business Review.

Key Indicators of running a financially viable business are Est. Net Equity of 25% or greater, Cash flow Coverage of 1.2 or Higher, and TTM Liability Turnover Days of 7 days or less.

	Guideline	TTM Feb 2014	Financial Viability Assessment	Last Business Review TTM Oct 2012
Estimated Net Equity	25% or greater	25% to 69.9%	1	Above
Cash Flow Coverage Ratio	1.2 or higher	1.25	3	0.92
TTM Liability Turnover Days	7 days or less	4.4	2	6.6
	6 Points or Higher	●	6	

TTM Feb 2014 Calculations for your organization based on your most recent financial information submitted are as follows:

❖ **Estimated Net Equity**--*estimated value of the business less any debts (before required reinvestments)*

Guideline 25% or greater

❖ **Cash Flow Coverage Ratio (CFCR)**--*indicates the ability to service debt.*

Guideline 1.2 or higher

Calculation:

Pre-Debt Cash Flow Before G&A and Draw (A)	$	2,850,000
Less: Actual G&A	$	1,200,000
Less: Draw	$	280,000
Cash Flow after Draw and G&A	$	1,370,000
Divided by: Annual Debt Service (B)	$	1,100,000
Cashflow Coverage Ratio		1.25

❖ **TTM Liability Turnover Days**--*indicates the ability to pay debts on a timely basis.*

Guideline TTM Liability Turnover Days of 7 or less

Calculation:

Computed for each of last twelve months then averaged

Working Capital ÷ Average Daily Sales = LTO

Working Capital = Current Assets -Current Liabilities - Current Portion of Long Term Debt + 1/12 Current Portion of Long Term Debt

Average Daily Sales = Annualized Sales ÷ 363

TTM Liability Turnover (in days, note - negative days indicate positive working capital) (C) 4.4

(A) - Pre-Debt CashFlow Before G&A and Draw is reduced by NEP debt payments made during the past twelve months to reflect treatment as occupancy cost.

(B) - Annual Debt Service reflects loan information, utilizing loan payment and origination date, reported by you on the Debt Summary for the past twelve months. This number has not been reviewed to determine whether all loans are in compliance with McDonald's guidelines and McDonald's reserves the right to restate the terms of any loans not in compliance with McDonald's guidelines. NEP debt payments are included in Pre-Debt Cash Flow Before G&A and Draw, and therefore excluded from Annual Debt Service. See footnote (A).

(C) - See TTM Liability Turnover details on the BalSheet tab.

Courtesy of McDonald's Corp.

Understanding Financial Viability – Organizational Equity

Owner / Operator: **Ronald McDonald**
Financial Statement Date: **2/28/14**

Net Debt	
Net debt indicates the amount of debt owed to outside creditors (net of current assets on hand).	
Total Current & Long-Term Liabilities	6,694,409
Current Assets	1,000,000
Less: Building Loan Payable	-
Less: N/P Shareholder (Operator Loans to Business)	-
Net Debt Dollars	**5,694,409**
Organizational Equity Position (See Note Below)	
Equity is the difference between the value of the business less all debt owed in the business including costs of any required reinvestments. Equity % represents the equity $'s divided by the business value.	
Pre-Debt Cash Flow	2,850,000
Less: G&A ($35,000/trad.store or $10,000/non-trad. store)	700,000
Pre-Debt Cash Flow less G&A	2,150,000
Cash Flow Multiple	4.5
Estimated Gross Store Value (b/4 Reinvestment)	**9,675,000**
Less: Required Reinvestment (NRBES total)	-
Estimated Net Store Value (after Reinvestment)	9,675,000
Less: Net Debt Dollars	5,694,409
Estimated Net Equity $	**3,980,591**
Estimated Net Equity %	**41.1%**

Note: To actually value restaurants, the discounted cash flow method should be used. For simplicity, this worksheet uses the cash flow multiple method to approximate the discounted cash flow method. The cash flow multiple method uses only the current TTM cash flow multiplied by the cash flow multiple of 4.5 (which represents a 21.8% annual return over 20 years). The cash flow multiple method has significant limitations including the following:
- Current year's results may not represent the restaurant's cash flow performance in future years.
- Estimated restaurant value assumes there is a buyer willing to purchase the restaurant(s) for the cash flow multiple assumption used.
If the cash flow multiple method indicates a potential solvency issue, McDonald's Corporation will use a more precise and detailed discounted cash flow analysis to value restaurants to determine if a solvency concern exists.

Courtesy of McDonald's Corp.

TTM Balance Sheet

Owner/Operator Name & Number:
Organization Name & Number:

	Jun-13	Jul-13	Aug-13	Dec-13	Jan-14	Feb-14
# of Balance Sheets Consolidated	1	1	1	1	1	1
Total Current Liabilities	**$1,811,890**	**$1,845,080**	**$2,012,597**	**$1,960,102**	**$1,779,539**	**$2,252,524**
Equipment/Other Debt (≤ 7yrs)	2,607,970	2,541,656	3,752,622	3,573,164	3,490,622	3,303,413
Conivestment/Building/Site Debt (≤ 10 yrs)						
NEP Debt (≤ 20 yrs)	1,283,568	1,270,044	1,256,647	1,200,630	1,187,375	1,138,472
Non-Restaurant Building and Equipment Debt						
Note Payable - Vehicle	0	0	0	0	0	0
Lines of Credit Drawn						
Miscellaneous Payable-Long-term	0	0	0	0	0	0
Note Payable-Shareholder	0	0	0	0	0	0
Total Long-Term Liabilities	**$3,891,539**	**$3,811,700**	**$5,009,269**	**$4,773,794**	**$4,677,998**	**$4,441,885**
Total Liabilities	**$5,703,429**	**$5,656,780**	**$7,021,866**	**$6,733,895**	**$6,457,537**	**$6,694,409**
Capital Stock/Owners Capital	815,465	815,465	815,465	815,465	577,204	577,204
Additional Paid in Capital	298,985	298,985	298,985	298,985	298,985	298,985
Treasury Stock	(42,940)	(42,940)	(42,940)	(42,940)	(42,940)	(42,940)
Retained Earnings/Accumulated Earnings	1,416,242	1,416,242	1,416,242	1,416,242	1,502,241	1,502,241
Current Profit and Loss	123,904	195,454	233,277	238,808	(23,035)	(55,041)
Draw/Dividends/Distributions	(248,908)	(259,455)	(269,855)	(391,070)	(50,735)	(55,322)
Total Equity/Capital	**$2,362,748**	**$2,423,752**	**$2,451,175**	**$2,335,490**	**$2,261,721**	**$2,225,128**
Total Liabilities and Owners Equity	**$8,066,177**	**$8,080,532**	**$9,473,040**	**$9,069,386**	**$8,719,257**	**$8,919,537**

Calculation of Total Draw/Dividends/Distributions:						
Chg in Monthly Shareholder Receivable	$0	$0	$0	$0	$0	$0
Chg in Monthly Notes Payable Shareholder	-	-	-	-	-	-
Chg in Monthly Draw/Dividends/Distributions	69,259	10,547	10,400	24,318	50,735	4,587
Total Monthly Draw/Dividends/Distributions	**$69,259**	**$10,547**	**$10,400**	**$24,318**	**$50,735**	**$4,587**
					TTM Total	**$281,019**

Profit and Loss Comparison:						
SOI	$162,456	$161,113	$142,895	($79,647)	$74,347	$75,915
Less G&A	$111,892	$89,563	$105,072	$130,963	$97,382	$107,922
Computed Profit and Loss from Income Statement	50,564	71,550	37,823	(210,610)	(23,035)	(32,006)
Chg in Monthly B/S Current Profit and Loss	50,564	71,550	37,823	(210,610)	(23,035)	(32,006)
Variance	-	-	-	-	**0**	-
Working Capital	(190,600)	(498,644)	(273,727)	(242,714)	(316,912)	(217,661)

Avg Daily Sales	60,655	61,029	60,825	61,801	61,747	61,999	TTM LTO
LTO	3.1	8.2	4.5	3.9	5.1	3.5	4.4

Courtesy of McDonald's Corp.

Understanding G&A, Draw & Debt

How to control **G&A**

- Analyze each line item on G&A & identify opportunities:
  - Office rent
  - Travel
  - Vehicle Expenses
- Outsourcing?
- Budget for G&A: To achieve a 10, G&A must be X
  - Note: McD guideline is $35k per restaurant. We know this hasn't changed in a very long time and this number needs to be mitigated for increased cost. Our benchmarks show an average of $50-$60k per store.

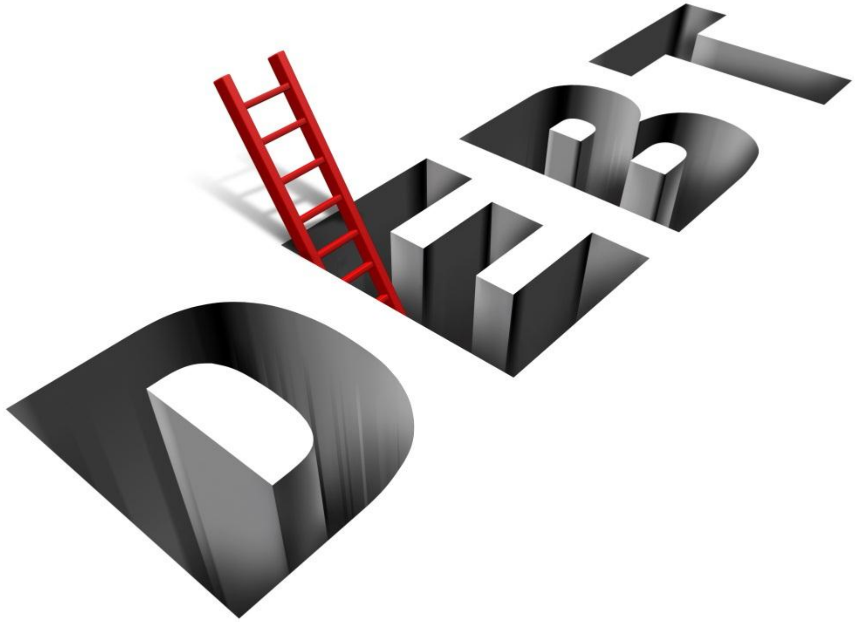
Understanding G&A, Draw & Debt

How to control **Draw**

- Taxes
  - On going tax planning
  - Maximize savings & opportunities
  - Take advantage of all available tax credits
  - Spread payments equally throughout the year to avoid adverse impact on ratios in any given month
- Refinance Personal Debt
- Budget for Draw - to achieve a 10, Draw must be $X. Lifestyle needs to reflect this budget!

How to control **Debt**

- Weighted Average
- New Debt
  - Break-Even Tool
  - Contribution Margin
- Retiring Debt
- Interest Rates: Variable vs. Fixed
- Relationship with Lender is important!



Maximizing Profitability in the P&L

Analyze every line item in the P&L

- Identify opportunities
- Norm Reports
- Quintile Reports
- Every vendor/outside service
  - Do not get comfortable with vendors – look at costs annually.
- Continually monitor pricing
- Get your team on board, incentivize & reward for reaching goals

	Budgeted Oct-14		Actual Oct-14		Variance Oct-14	
	$	%	$	%	$	%
Total Sales	150,000	101.69%	155,000	101.44%	5,000	3.23%
Non-Prod Sales	2,535	1.69%	2,200	1.44%	(335)	0.25%
Product Sales	147,465	100.00%	152,800	100.00%	5,335	0.00%
Food Cost	41,290	28.00%	42,000	27.49%	710	-0.51%
Paper Costs	5,206	3.53%	5,350	3.50%	144	-0.03%
Tot Cost of Sales	46,496	31.53%	47,350	30.99%	854	-0.54%
Gross Profit	100,969	68.47%	105,450	69.01%	4,481	0.54%
Crew Labor	36,866	25.00%	37,000	24.21%	134	-0.79%
Mgmnt Labor	3,333	2.26%	3,333	2.18%	(0)	-0.08%
Payroll Taxes	3,919	2.66%	4,000	2.62%	81	-0.04%
Travel	417	0.28%	125	0.08%	(292)	-0.20%
Advertising	6,180	4.19%	6,300	4.12%	120	-0.07%
Promotion	1,032	0.70%	1,200	0.79%	168	0.09%
Outside Services	2,083	1.41%	2,200	1.44%	117	0.03%
Linen	295	0.20%	350	0.23%	55	0.03%
Ops Supplies	1,327	0.90%	1,400	0.92%	73	0.02%
Small Equipment	500	0.34%	500	0.33%	0	-0.01%
Maint & Repairs	1,250	0.85%	2,200	1.44%	950	0.59%
Utilities	5,417	3.67%	5,200	3.40%	(217)	-0.27%
Office Supplies	417	0.28%	525	0.34%	108	0.06%
Cash (Ovr)/Shrt	100	0.07%	85	0.06%	(15)	-0.01%
Miscellaneous	0	0.00%	0	0.00%	0	0.00%
Total Cont Exp	63,137	42.81%	64,418	42.16%	1,281	-0.66%
P.A.C.	37,833	25.66%	41,032	26.85%	3,199	1.20%
Licensee Rent	12,750	8.65%	13,175	8.62%	425	-0.02%
Service Fees	6,000	4.07%	6,200	4.06%	200	-0.01%
Legal and Acct	375	0.25%	375	0.25%	0	-0.01%
Insurance	2,500	1.70%	2,600	1.70%	100	0.01%
Taxes and Lic	1,667	1.13%	1,667	1.09%	0	-0.04%
Depr & Amort	0	0.00%	0	0.00%	0	0.00%
Interest Expense	2,140	1.45%	2,200	1.44%	60	-0.01%
Misc Non-Contr	1,000	0.68%	1,000	0.65%	0	-0.02%
Total Non-Contr	26,432	17.92%	27,217	17.81%	785	-0.11%
Non-Prod Sales	2,535	1.69%	2,200	1.44%	(335)	-0.25%
Non-Prod Costs	(2,535)	1.69%	(2,200)	1.44%	(335)	-0.25%
Net Non-Prod	0	0.00%	0	0.00%	0	0.00%
S.O.I.	11,401	7.73%	13,815	9.04%	2,414	1.31%
+ Depr & Amort	0	0.00%	0	0.00%	0	0.00%
+ Interest Exp	2,140	1.45%	2,200	1.44%	60	-0.01%
- Loan Payment #1 P & I	5,700	3.87%	5,700	3.73%	0	-0.13%
- Loan Payment #2 P & I	0	0.00%	0	0.00%	0	0.00%
- Capital Lease Payment	0	0.00%	0	0.00%	0	0.00%
Post Debt C/F	7,841	5.32%	10,315	6.75%	2,474	1.43%
Operator Draw	0	0.00%	0	0.00%	0	0.00%
G&A Expense	1,167	0.79%	1,500	0.98%	333	0.19%
Est. Tax Pymts	0	0.00%	0	0.00%	0	0.00%
Net Cash Flow	6,674	4.53%	8,815	5.77%	2,141	1.24%

How to Get to Gold

Case Study #1

- 6 store Owner Operator
- Came to us as a 4, is now a 7 and on the way to a 10
- Here's how:
  - Refinanced home to save $30,000/year in payments
  - Refinanced debt service to save $100,000/year in principal & interest payments
  - Found $60,000 in savings in the P&L

How to Get to Gold

Case Study #2

- 7 store Owner Operator
- Came to us as a 2, is now a 6 and on the way to a 10
- Here's how:
  - Draw was $75,000
    - Daughter's college tuition was in this number. We suggested the daughter finance her education with the intention of O/O repaying when cash is up.
  - Business decisions vs. emotional
    - Terminated underperforming Store Manager
    - Replaced overpaid Bookkeeper with Bill Pay Services
  - Budgeted Draw & adhered to budget

How to Get to Gold

Other ways to get to Gold

- Sell an under performing restaurant
  - Reduces G&A
  - Builds Cash
  - Improves Ratios
  - Helps working capital
  - Helps to pay off debt
  - Positions O/O for growth so they can acquire more restaurants as they come up for sale in the future.
- Sell a restaurant outside of your patch

What does the future hold?

- Minimum Wage Increases
- Health care
- System Wide Initiatives
- Required Reinvestment
- Increased Taxes
- Sluggish Sales

You need to plan!

Creating a sound financial plan that is actionable, realistic and attainable will help you get to maximize viability.

- Insert all future considerations into 5 to10 year business plan to ensure your are achieving & exceeding financial viability standards.
- Maximize your relationships with advisors and utilize all resources available to you.

Summary

In order to "Get to **Gold**" you need to understand....

1. Ratios & Financial Viability
2. How business transactions and occurrences can positively or negatively affect ratios
3. How to control G&A, Draw & Debt Service
4. How to maximize profitability in the P&Ls
5. How to forecast the future and plan for it!

GG&G's Financial Plan to Win

1. Achieving, Sustaining and Maximizing Financial Viability
2. Continuous & Future Tax Planning
3. Business Planning
4. Personal Financial Planning

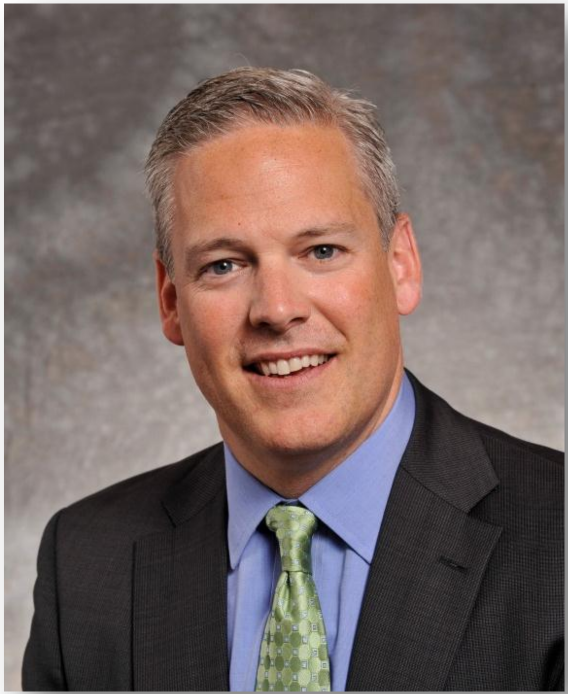
Upcoming Webinars

MRPs, Relos and Rebuilds, OH MY!
Wednesday, November 19th

Top 10 Year-End Tax Planning Considerations
Date TBD post-election

Register Today: www.gggcpas.com/webinars

Questions?



Richard P. Feilteau, CPA
rfeilteau@gggcpas.com

Contact Us

GRAY GRAY & GRAY®

CERTIFIED PUBLIC ACCOUNTANTS | ADVISORS

BEYOND THE NUMBERS

Canton | Framingham | Boston

www.gggcpas.com

781.407.0300

We go beyond the number by delivering insight, guidance and success to McDonald's™ Owner Operators.

Disclaimer

The content of this webinar is intended for educational purposes only.

This webinar provides a brief summary based on our understanding and interpretation of current law. All tax references are to federal tax law only, unless otherwise stated.

The information contained in this webinar is general in nature and is based on authorities that are subject to change. It is not, and should not be construed as accounting, legal or tax advice or opinion provided by Gray, Gray & Gray, LLP. The material presented may not be applicable to, or suitable for, specific circumstances or needs, and may require consideration of non-tax factors and tax factors not described herein. Contact Gray, Gray & Gray or another tax professional prior to taking any action based upon this information. Changes in tax laws or other factors could affect, on a prospective or retroactive basis the information contained herein; Gray, Gray & Gray assumes no obligation to inform the reader/webinar attendee of any such changes.

The material presented in this webinar is not intended to, and cannot be used to, avoid IRS penalties. This material supports the marketing and promotion of accounting services. Seek advice based on your particular circumstances from independent tax, legal accounting, insurance, investment and financial advisors.

Richard P. Feilteau, CPA is a Certified Public Accountant in Massachusetts and serves as Partner at Gray, Gray & Gray, LLP.