



**Industry Supply Inc.**

**PERFORMANCE REVIEW**

**For the period ending June 30, 2009**

Provided By



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**Report prepared for:** Sample Widget Manufacturing Inc.  
**Industry:** 332999 - All Other Miscellaneous Fabricated Metal Product Manufacturing  
**Revenue:** \$1M - \$10M  
**Periods:** 12 months against the same 12 months from the previous year

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LIQUIDITY



PROFITS & PROFIT MARGIN



SALES



BORROWING



ASSETS



EMPLOYEES



## LIQUIDITY



*Generally, what is the company's ability to meet obligations as they come due?*

### Operating Cash Flow Results

The company is generating strong, positive cash flow from operations for the period. This is quite positive. Over the long run, both overall liquidity and short-term liquidity are driven by cash flow, so these results are quite good.

### General Liquidity Conditions

Notice that liquidity conditions have improved this period while sales have stayed about the same and profits have risen. Typically, companies can improve liquidity even when volume stays about the same if profits rise.

Since last period, the company's liquidity position has improved in several areas. This specifically means that both highly liquid assets **and** total current assets have grown relative to short-term obligations. In fact, the company's position is solid, even as compared to competitors. This strong position should make it possible for managers to steer some resources into investments that will drive in long-term profits.

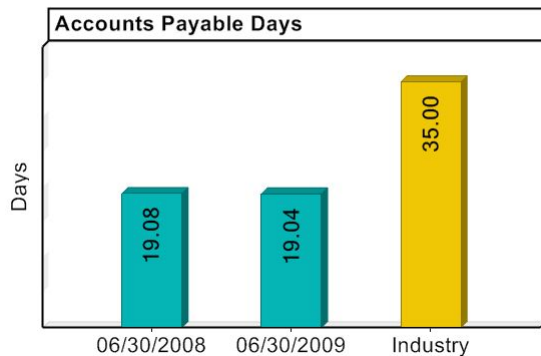
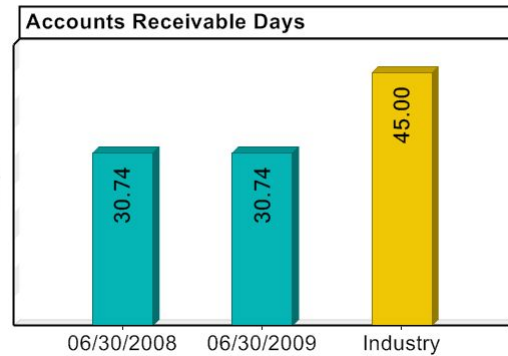
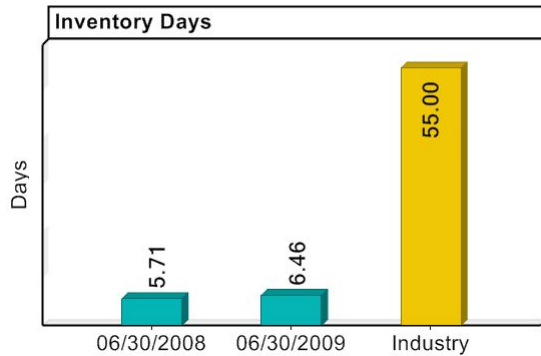
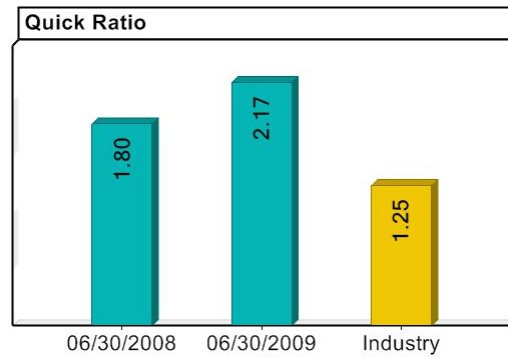
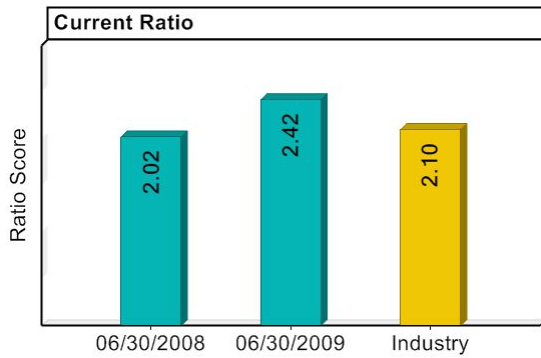
At this point, the overall liquidity position is still only about average. The cash and near-cash accounts look good, but the total current asset base is only fair. The top accounts should probably not be allowed to decrease too much because there is not a large current asset base beneath them.

The company is performing well in two components of overall liquidity: inventory days and accounts payable days. Both of these statistics are lower than industry averages -- a fact that will please both the company and creditors who may loan money to the company. In addition, the company's accounts receivable days are about average compared to industry standards. The company may want to monitor this statistic over time, as it can have a significant impact on the cash account.

Here are some ideas/actions that managers might consider in managing liquidity:

- Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process which can significantly improve the firm's cash position.
- Rent rather than buy resources where appropriate. In the long term, this can help achieve an acceptable level of Balance Sheet obligations relative to liquid assets. Current Balance Sheet obligations (such as debt on purchased assets) are uses of cash.
- Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice. This will extend Accounts Receivable and hurt cash flow.
- Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.

**LIMITS TO LIQUIDITY ANALYSIS:** Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



## PROFITS & PROFIT MARGIN



### *Are profitability trends favorable in the company?*

The company's results this period demonstrate the importance of profit margins, which are simply the cents of profit that the company earns on every dollar gained in sales. Margins are crucial to good profit management, because they measure a company's ability to manage its costs relative to its revenues. While overall liquidity indicates a company's ability to survive, profits indicate its ability to thrive.

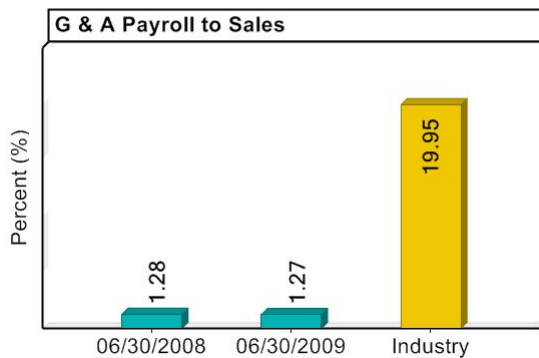
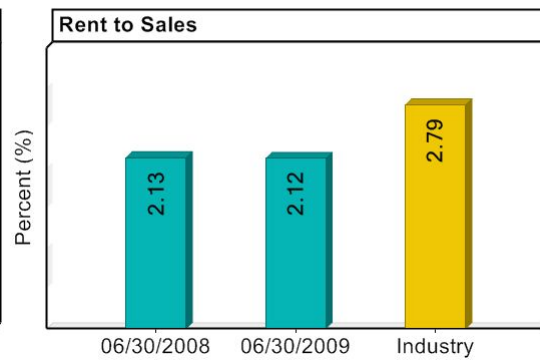
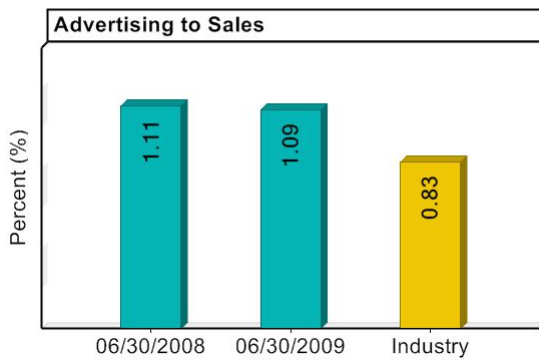
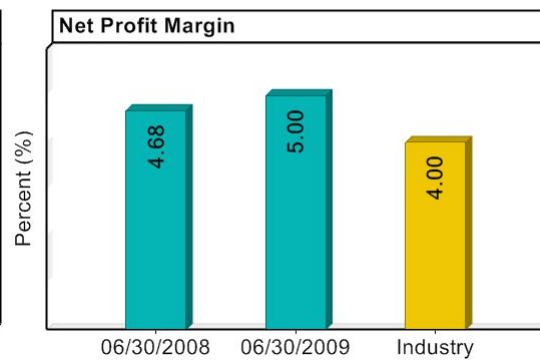
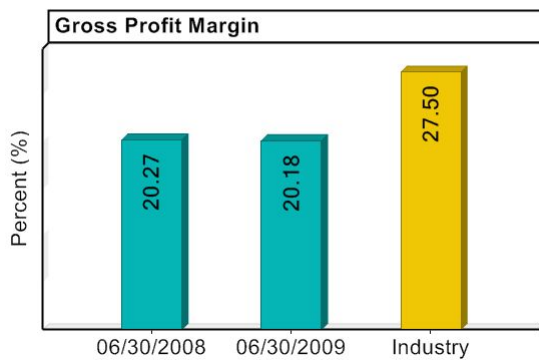
This company has achieved some fairly good results in the Profitability area at this time, as net profit dollars have increased by 10.07% while sales have remained relatively flat. It looks as if the company has experienced some **modest** changes in its sales and its net margin, and that these small movements have combined to leverage an even greater increase in net profits. This is quite positive. As for the company's net margin, it is at an average level for this industry and also has not changed much since the prior period.

Keep in mind that the company's net margin results are only average for two periods in a row, and that "average" is not the same as "excellent." A good goal for the company at this time might be to generate above-average net profits over time. From the graph area of the report, it is clear that the company's scores in this general area are "fair," and in line with the industry in which it competes. Earning above-average net profits would help improve the company's performance in every other part of this report. For example, overall liquidity is most helped by having a strong net margin. The higher a company's net margin, the better its cash flow will

be over the long run. On the other hand, it may be difficult to gain or keep a strong cash position over time if net profits are just average.

It is a challenge to generate strong profitability in any business over the long run. Here are some ideas managers might find useful to leverage even greater results in the future (these are "tips" or ideas to think about):

- Consider using performance metrics to determine employee bonuses. By tying a portion of compensation to performance, employee production will increase.
- Establish relationships with solid contacts at each customer location. These relationships help cement your relations with your customers, and also provide avenues for valuable feedback on your products.
- Enroll the business in the right insurance program at a good cost. Evaluate alternative insurance carriers that may be able to serve the business at a cheaper cost. Due to the nature of the business, it is important to have a good worker's compensation plan.
- Determine if there is a better way to acquire materials and/or inventory than the existing method. It may be possible to purchase less and still maintain sales volume.



**SALES**



### Are sales growing and satisfactory?

Sales trends are often simple to analyze -- sales are either up or down. This company's sales volume is about the same as it was last period. This is not an ideal result because companies generally want to see sales increasing consistently. The company should be building on its existing customer base at all times -- maintaining its current customers while adding new ones. Additional sales volume is required because expenses tend to **increase** over time, and all expenses are ultimately paid for with sales dollars.

On a positive note, the company's fixed assets fell this period. Thus, the company earned approximately the same level of sales on a smaller asset base -- they are driving **more** sales volume through each dollar of assets on the books, which is good. This is referred to as increasing "asset turns."

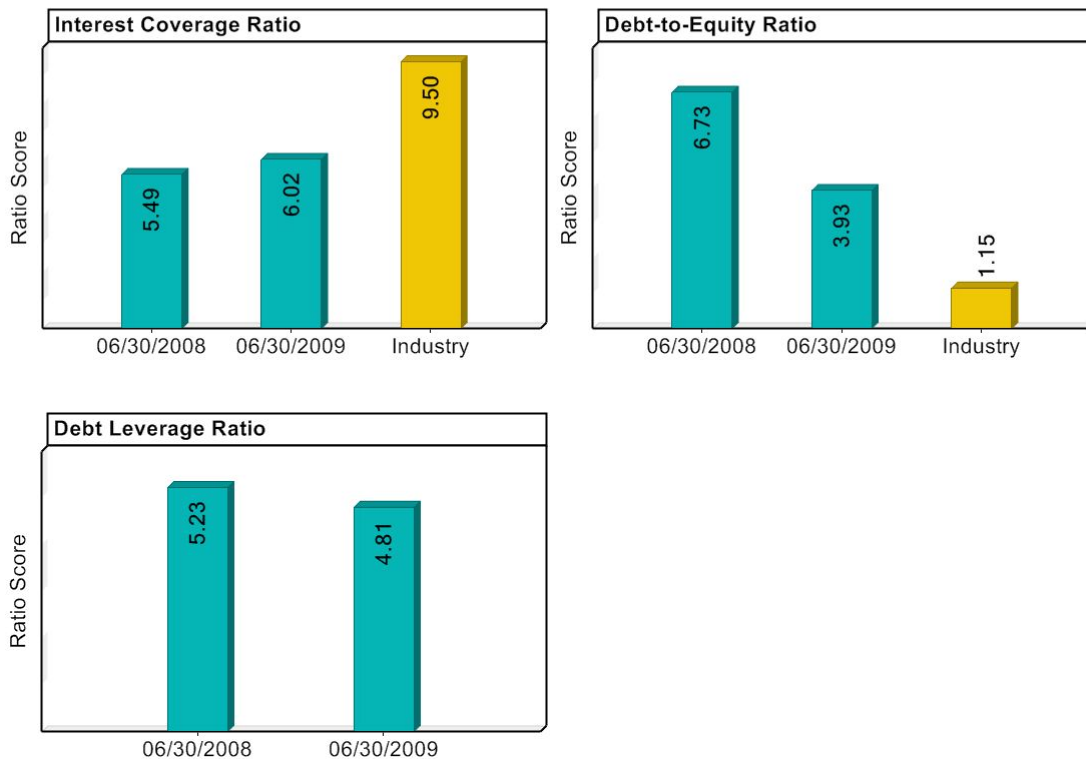
## BORROWING



### Is the company borrowing profitably?

The level of debt stayed about the same as last period, but net profitability improved. This basically means that a better level of profitability is being moved through about the same level of debt, which is positive. This dynamic should improve the company's returns to owners. There does not **seem** to be a correlation this period between debt and profitability, since profitability improved on an even debt base. Yet, it might be interesting to determine if there were any prior period changes (increases or decreases) in debt that might have helped profitability this period. If not, the company has improved Income Statement performance without adding significant debt, which is positive.

While the overall trend in this area seems to be positive, the following areas may merit further attention. When compared to its industry peers, the company has generated an average amount of earnings (before interest and non-cash expenses) to cover its debt obligations. It also seems to have a relatively high level of debt compared to equity. Therefore, small changes in earnings could have a significant impact on the company's ability to meet interest obligations.



## ASSETS

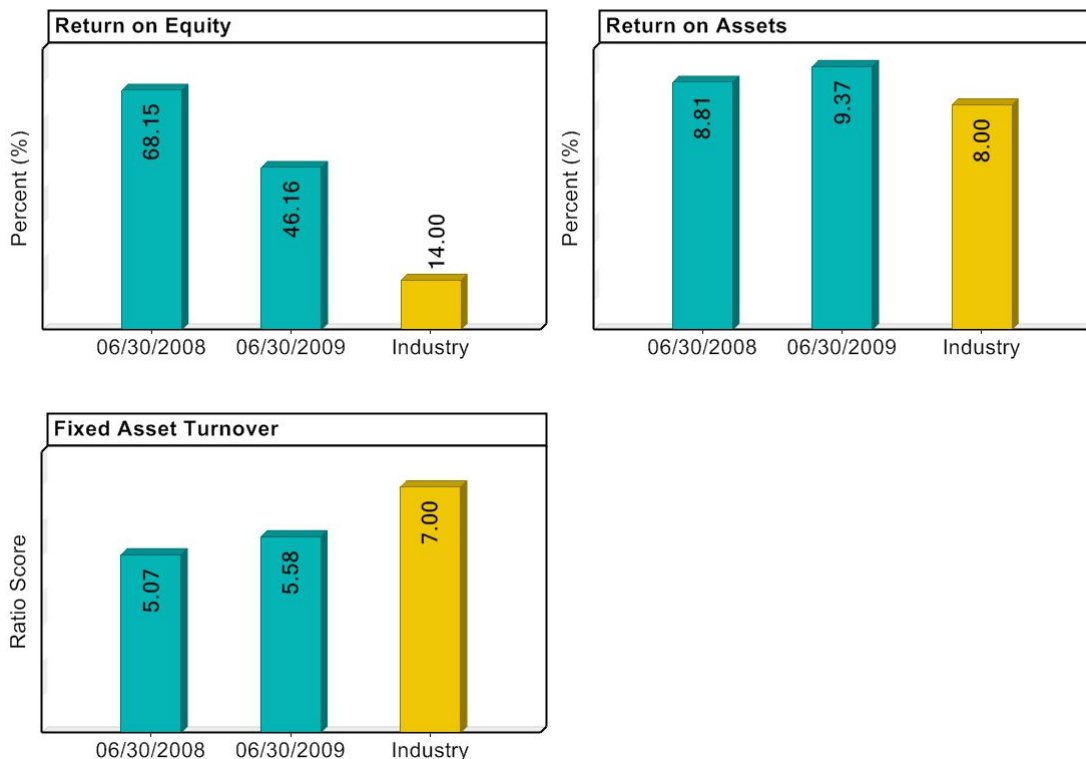


### Is the company using gross fixed assets effectively?

The way fixed assets are added and used is sometimes even more important to profitability than expense

management. This is because asset additions represent large investments, often financed, that can lead to long-term profitability. In this case, however, the company was able to release some fixed assets and still improve profitability by 10.07%. This is a good combination. There may have been some assets on the books which were not contributing sufficiently to profitability. In addition to better profitability, overall liquidity improved as those assets came off the books, therefore the company is in a stronger position than last period.

The overall score in this area is good. It is positive to see a good return on equity for the period. The company had average results for return on assets and fixed asset turnover. However, these can be improved over time if the company continues to improve profitability relative to assets.



## EMPLOYEES

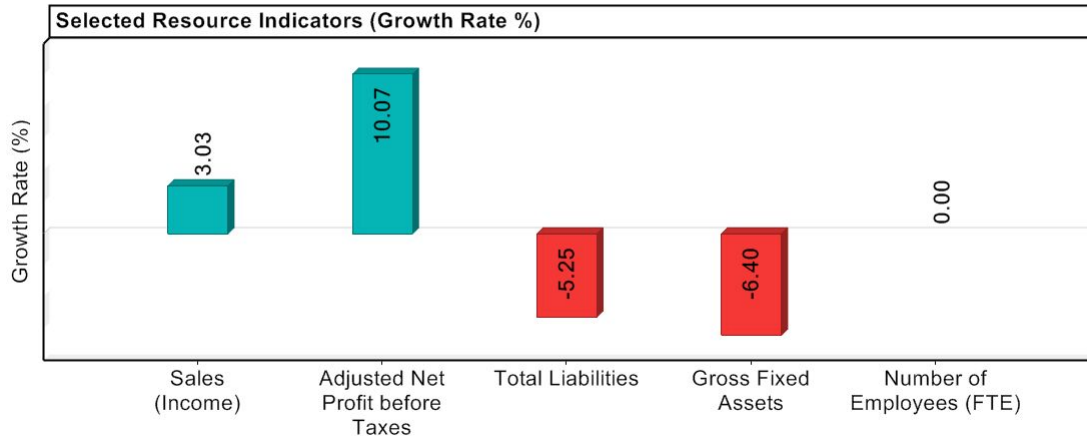


### *Is the company hiring effectively?*

Net profitability has improved and the company has about the same number of employees as last period. This is quite positive; it means that the company's net profitability per employee statistic is improving. This statistic is a good measure of health in this particular industry. Improving net profitability per employee typically implies that the company is managing existing resources better. It may also imply that adding employees **may** not be necessary to this company's success **at this specific time**. The company did not need more staff to improve net profitability during this particular period. If managers believe that net profitability can continue to improve on a relatively flat employee base, than now may not be the time to hire.

Of course, managers will need to do some planning in this area. It is always important to make hiring decisions based on solid financial projections and an assessment of the company's business needs. The analysis in this report looks back, not forward. Good hiring decisions are ultimately made by looking ahead.

"A clear purpose is the most compelling component of any organization. All people respond to a purpose; grand in scope, yet simple in structure." - Andrew Carnegie



**A NOTE ON SCORING:** Each section of this report (Liquidity, Profits & Profit Margin, etc.) contains a star rating which measures the company's overall performance in the area at the time of the report's generation. One star indicates that the company is below average or may possibly need improvement in the area. Three stars indicate that the company is about average for the area. Five stars indicate that the company is above average or performing quite well in the area.

## RAW DATA

	06/30/2008	06/30/2009
<b><u>Income Statement Data</u></b>		
Sales (Income)	\$4,810,620	\$4,956,470
Cost of Sales (COGS)	\$3,835,521	\$3,956,401
Gross Profit	\$975,099	\$1,000,069
Gross Profit Margin	20.27%	20.18%
G & A Payroll Expense	\$61,500	\$63,038
Rent	\$102,500	\$105,063
Advertising	\$53,286	\$53,819
Depreciation	\$68,697	\$60,757
Interest Expense	\$65,546	\$61,484
Net Profit before Taxes	\$225,357	\$248,059
Adjusted Net Profit before Taxes	\$225,357	\$248,059
Net Profit Margin	4.68%	5.00%
EBITDA	\$359,600	\$370,300
Net Income	\$190,427	\$209,610

### **Balance Sheet Data**

Cash (Bank Funds)	\$90,917	\$205,151
Accounts Receivable	\$405,149	\$417,433
Inventory	\$60,000	\$70,000
Total Current Assets	\$556,066	\$692,584
Gross Fixed Assets	\$949,455	\$888,698
Total Assets	\$2,160,521	\$2,236,282
Accounts Payable	\$200,480	\$206,339
Total Current Liabilities	\$275,606	\$286,257
Total Liabilities	\$1,881,084	\$1,782,235
Total Equity	\$279,437	\$454,047
Number of Employees (FTE)	9.0	9.0

## COMMON SIZE STATEMENTS

	06/30/2008	06/30/2009	Industry* (73)
<b><u>Income Statement Data</u></b>			
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	80%	80%	67%
Gross Profit	20%	20%	33%
G & A Payroll Expense	1%	1%	19%
Rent	2%	2%	3%
Advertising	1%	1%	1%
Depreciation	1%	1%	2%
Interest Expense	1%	1%	1%
Net Profit before Taxes	5%	5%	5%
Adjusted Net Profit before Taxes	5%	5%	5%
EBITDA	7%	7%	8%
Net Income	4%	4%	5%

### **Balance Sheet Data**

Cash (Bank Funds)	4%	9%	10%
Accounts Receivable	19%	19%	32%
Inventory	3%	3%	20%
Total Current Assets	26%	31%	67%
Gross Fixed Assets	44%	40%	73%

Total Assets	100%	100%	100%
Accounts Payable	9%	9%	21%
Total Current Liabilities	13%	13%	38%
Total Liabilities	87%	80%	61%
Total Equity	13%	20%	39%

\*The industry common size figures shown above were taken from all private company data for companies with industry code 332999 for all years in all provinces in Canada with yearly sales \$1 million to \$10 million.

## INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
<b>Current Ratio</b> = Total Current Assets / Total Current Liabilities	2.42	1.40 to 2.80	0.00%
<p><b>Explanation:</b> Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.</p>			
<b>Quick Ratio</b> = (Cash + Accounts Receivable) / Total Current Liabilities	2.17	0.90 to 1.60	+35.63%
<p><b>Explanation:</b> This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.</p>			
<b>Inventory Days</b> = (Inventory / COGS) * 365	6.46 Days	40.00 to 70.00 Days	+83.85%
<p><b>Explanation:</b> This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.</p>			
<b>Accounts Receivable Days</b> = (Accounts Receivable / Sales) * 365	30.74 Days	30.00 to 60.00 Days	0.00%
<p><b>Explanation:</b> This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.</p>			
<b>Accounts Payable Days</b> = (Accounts Payable / COGS) * 365	19.04 Days	20.00 to 50.00 Days	+4.80%
<p><b>Explanation:</b> This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.</p>			
<b>Gross Profit Margin</b> = Gross Profit / Sales	20.18%	20.00% to 35.00%	0.00%
<p><b>Explanation:</b> This number indicates the percentage of sales revenue that is paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).</p>			
<b>Net Profit Margin</b> = Adjusted Net Profit before Taxes / Sales	5.00%	2.00% to 6.00%	0.00%
<p><b>Explanation:</b> This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.</p>			
<b>Advertising to Sales</b> = Advertising / Sales	1.09%	0.00% to 1.67%	0.00%

**Explanation:** This metric shows advertising expense for the company as a percentage of sales.

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<b>Rent to Sales</b>	2.12%	1.47% to 4.11%	0.00%
= Rent / Sales			

**Explanation:** This metric shows rent expense for the company as a percentage of sales.

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<b>G &amp; A Payroll to Sales</b>	1.27%	13.94% to 25.97%	+90.89%
= G & A Payroll Expense / Sales			

**Explanation:** This metric shows G & A payroll expense for the company as a percentage of sales.

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<b>Interest Coverage Ratio</b>	6.02	4.00 to 15.00	0.00%
= EBITDA / Interest Expense			

**Explanation:** This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.

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<b>Debt-to-Equity Ratio</b>	3.93	0.70 to 1.60	-145.63%
= Total Liabilities / Total Equity			

**Explanation:** This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.

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<b>Debt Leverage Ratio</b>	4.81	N/A	N/A
= Total Liabilities / EBITDA			

**Explanation:** This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

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<b>Return on Equity</b>	46.16%	8.00% to 20.00%	+130.80%
= Net Income / Total Equity			

**Explanation:** This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.

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<b>Return on Assets</b>	9.37%	6.00% to 10.00%	0.00%
= Net Income / Total Assets			

**Explanation:** This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.

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<b>Fixed Asset Turnover</b>	5.58	4.00 to 10.00	0.00%
= Sales / Gross Fixed Assets			

**Explanation:** This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER: Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (accountant, banker, financial planner, attorney, etc.).

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