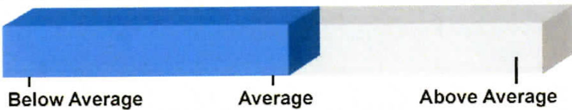
FINANCIAL REPORT

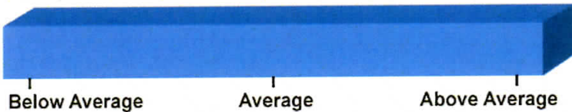
This report is designed to assist you in your business' development. Below you will find your overall ranking, business snapshot and narrative write-up.

Snapshot of: **ACME Construction - Extreme**
Industry: 23611 - Residential Building Construction
Revenue: $1M - $10M
Periods: 12 months against the same 12 months from the previous year
Prepared by: Smith & Company CPAs, PC

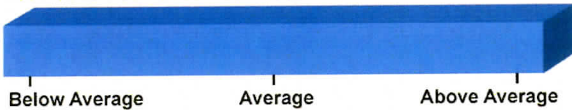
Financial Score for ACME Construction - Extreme



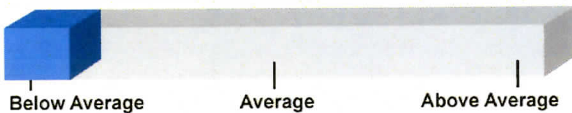
LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.



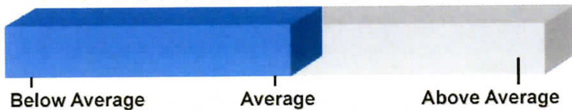
PROFITS & PROFIT MARGIN -
A measure of whether the trends in profit are favorable for the company.



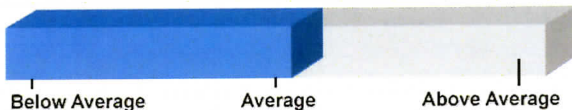
SALES -
A measure of how sales are growing and whether the sales are satisfactory for the company.



BORROWING -
A measure of how responsibly the company is borrowing and how effectively it is managing debt.



ASSETS -
A measure of how effectively the company is utilizing its gross fixed assets.

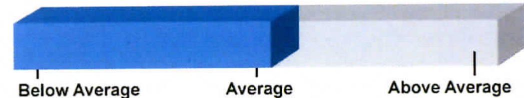


EMPLOYEES -
A measure of how effectively the company is hiring and managing its employees.

Financial Analysis for ACME Construction - Extreme

LIQUIDITY

A measure of the company's ability to meet obligations as they come due.



Operating Cash Flow Results
There is a positive relationship between profits and cash flow for this company, which is good. The company is generating strong cash flow from operations at the end of the period. Over the longer run, these types of results can help boost overall liquidity conditions, which will be discussed in more depth in the next section.

General Liquidity Conditions
In this case, the company's liquidity position **is about average for the industry** in which it competes. Having average liquidity means that, generally, there are adequate current assets on hand relative to short-term obligations. This does **not necessarily** mean that the company will never have any difficulties paying bills, but it indicates that the firm is in a reasonable position as of this specific Balance Sheet date.

However, it is always important to keep in mind that **liquidity is a volatile statistic** that can move from strong to weak very quickly. For this reason, it is generally more important to monitor trends than raw data in this key area. As of these two specific Balance Sheet dates, the company's liquidity position has declined -- the firm will probably want to examine the reasons for this downward trend and make sure that liquidity resources are being used in the best ways for the company. Remember that increasing sales (as this company

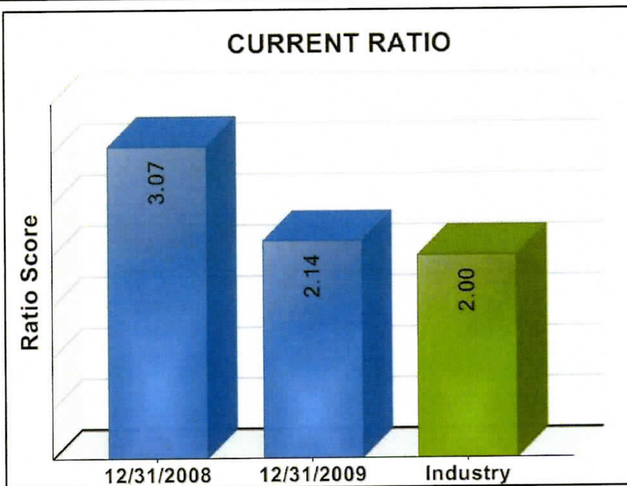
has done this period) often demands cash resources.

This company may have some additional areas to focus on for certain components of overall liquidity. Inventory days, accounts receivable days, and accounts payable days are all higher than industry averages. This indicates that the company may be taking longer to sell inventory and may also be slow in collecting receivables and paying vendor bills. All of these factors can affect the cash account significantly, and the company may want to reduce them over time. In particular, a high payable days ratio is not typically favorable to creditors, so it might be good to see a lower value here.

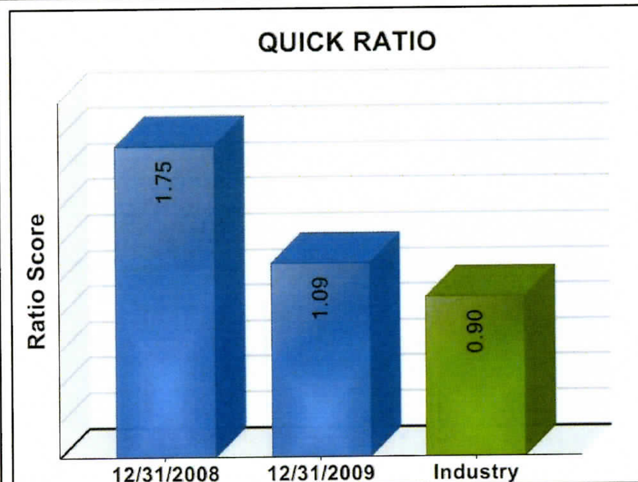
Tips For Improvement
In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

- Monitor Accounts Receivable on a weekly basis and charge interest on invoices that are past due.
- If necessary, try to establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible from the bank. If external financing is needed, structure it as long-term debt rather than short-term debt in order to decrease monthly payments.
- Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or bi-weekly basis to help prepare for potential future cash shortfalls.
- Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. Make sure giving credit will increase revenues/income and be cost effective. Also, if beneficial, provide discounts to customers who pay early.

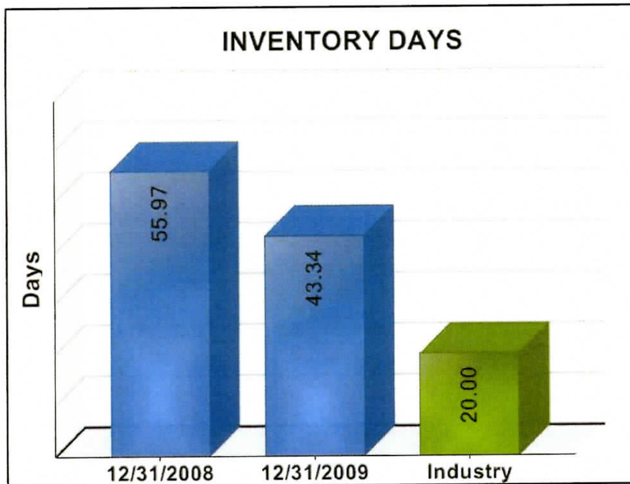
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



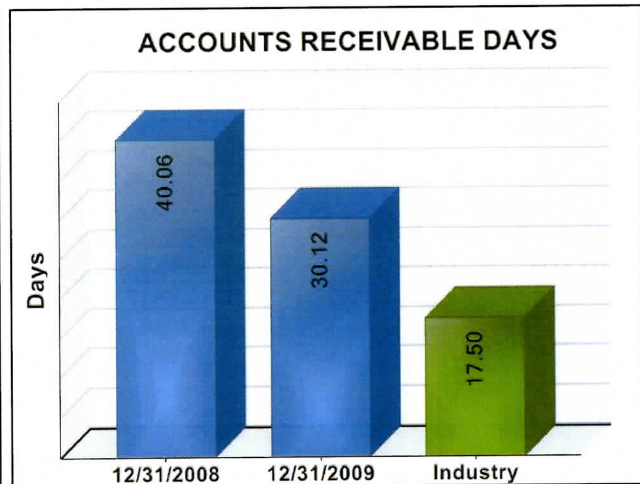
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



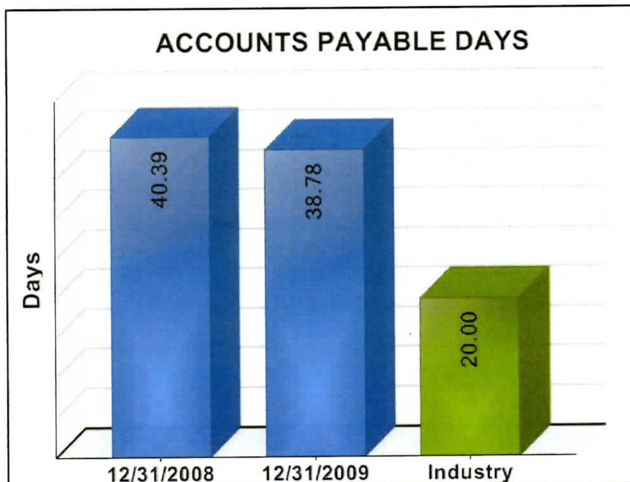
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.



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.



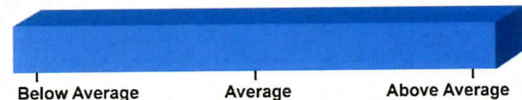
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



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.

PROFITS & PROFIT MARGIN

A measure of whether the trends in profit are favorable for the company.



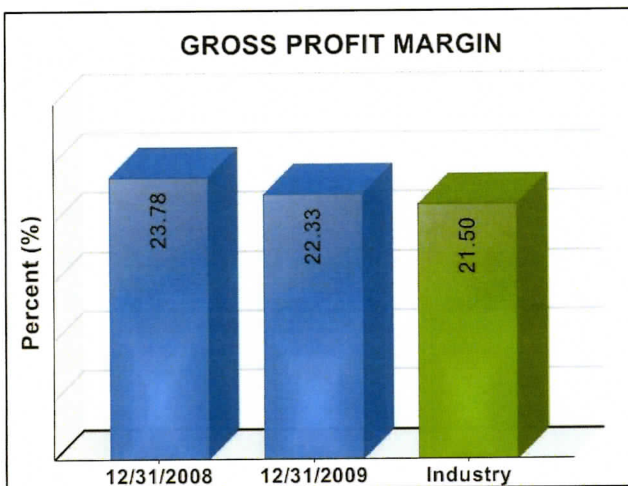
This company managed to drive in higher net profits in dollars this period, while increasing sales and maintaining its net profit margin from the previous period. While these results are fairly positive, there are some profitability components that the company may want to monitor in the future. First of all, the company's net profit margin ideally should have noticeably risen this period. This is because some of the company's costs are fixed -- they do not change much as sales change. Thus, net profit margins are often expected to rise as a company generates more sales; generally, expenses should be shrinking as a percentage of sales.

Secondly, it should be noted that the company's gross profit margin has fallen quite a bit since the previous period. This appears to have occurred because the sales increase was canceled out by higher costs of sales. In fact, the decline in the gross margin may have actually contributed to the company's lack of improvement in its net profit margin this period, which is important to remember. The company only generated about the same gross profits in dollars this period, even though sales increased. Simply, gross margin performance and net profit margin performance are intertwined.

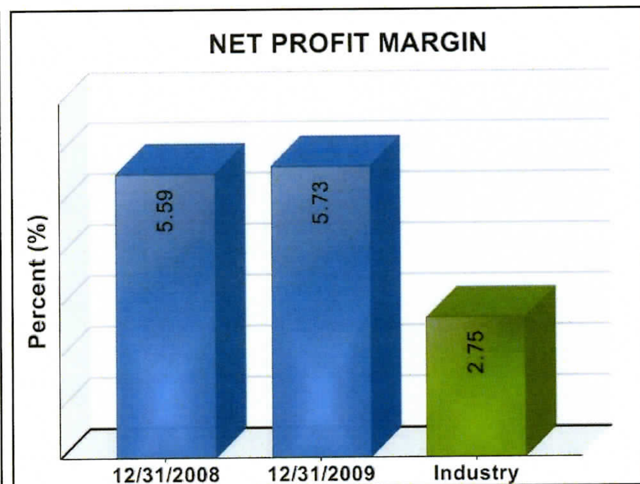
Keep in mind that the company is still doing strong work in this area. **The net profit margin continues to be very healthy**, net profits are higher, and sales are higher. Basically, the company is doing quite well in this area, as it did last period. The company's net margin is strong both generally and relative to the net margins that are being earned by competing firms; this is depicted in the graph area of the report. No other Income Statement ratio is as important for a company to manage as the net profit margin.

Tips For Improvement
Managers may want to consider actions that could drive even greater profits over time. Here are some potential ideas that might be helpful:

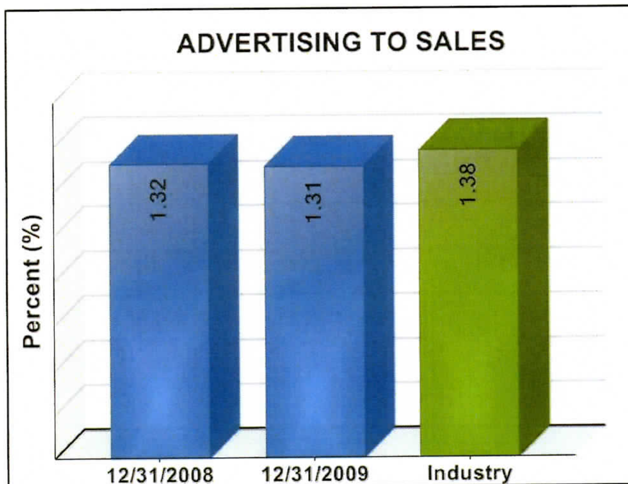
- If applicable, try to customize houses without having to add a great deal of extra overhead costs to the project.
- Create a clear image in the minds of customers. Position the business as being inexpensive and fast, or as high quality and thorough.
- Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes.
- Reduce payroll costs, including any overtime expenses, by maintaining an ideal number of employees and monitoring the number of hours that each employee works.



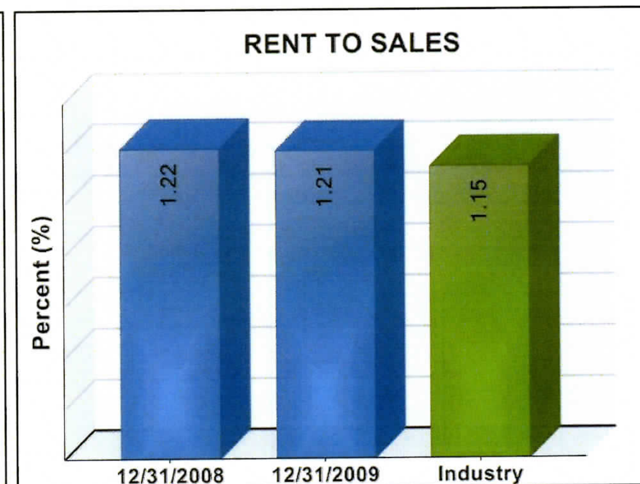
This number indicates the percentage of sales revenue that is paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).



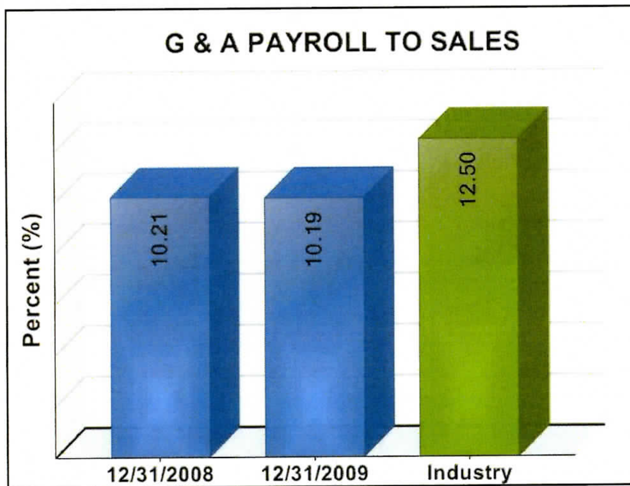
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.



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



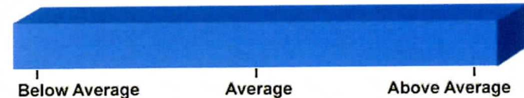
This metric shows rent expense for the company as a percentage of sales.



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

SALES

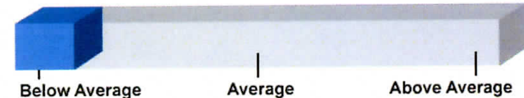
A measure of how sales are growing and whether the sales are satisfactory for the company.



The goal of this report is to highlight financial results that are not always obvious. Not much analysis is dedicated to the sales section because sales trends are generally straightforward. This company performed well here by increasing sales, although it should be noted that fixed asset levels grew at a faster rate than sales this period. This means that "asset turns" (or the amount of revenue driven through each dollar of fixed assets on the books) has dropped from last period. **Over time** companies prefer to see sales increase faster than increases in the asset base. However, this is a minor issue that should simply be monitored in future reports. For example, it is possible that the assets purchased require time to start generating more sales.

BORROWING

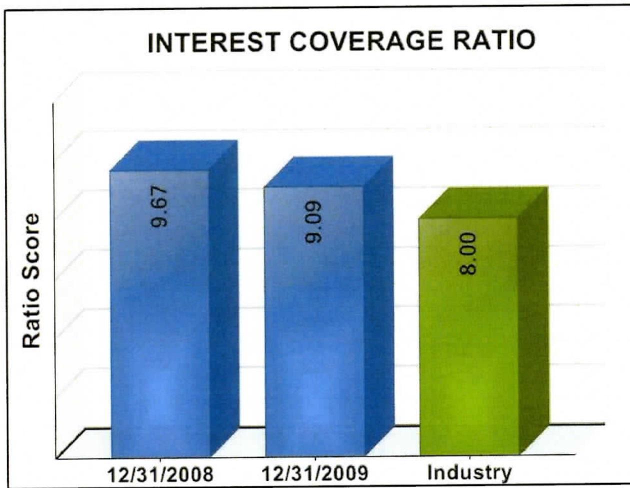
A measure of how responsibly the company is borrowing and how effectively it is managing debt.



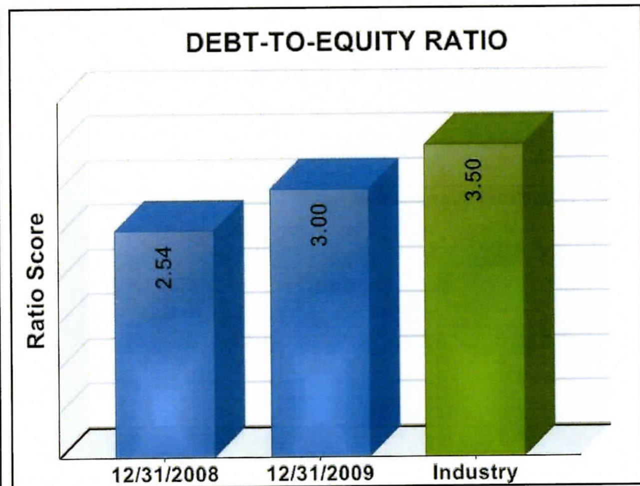
The goal with borrowing is to leverage borrowed funds to earn more money for the company. The idea, for example, is to borrow at 10% interest and earn 20% on the borrowed funds. The company should make more money from borrowing than from not borrowing. This concept is counterintuitive because it is easy to think that borrowing would lower profitability because of the interest that must be paid. Actually, if borrowing is done effectively, profitability will improve, because the company will earn more money on its investments than it pays in interest.

The issue with these results is that the company does not seem to have added debt most effectively. It is true that the company improved profitability with the addition of debt, which is positive. However, total debt has grown at a faster rate than profitability. As a one time event, this is not overly concerning. However, over time, profitability should improve more quickly than debt increases, or the company risks an imbalance of debt with respect to the level of profitability. Look for long-term trends in this important area.

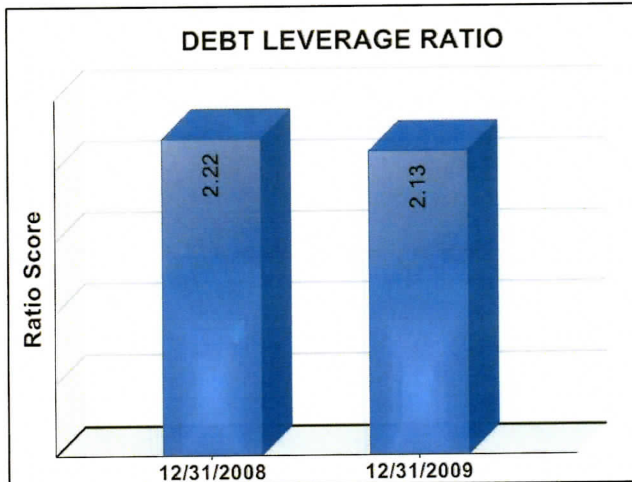
With regard to this company's ability to meet its interest expenses from its earnings and its level of debt in relation to its total equity, there is not too much to report -- both of these statistics are about in line with the industry averages. In cases like this, look for future trends. Basically, we need to balance the fact that the company is receiving mixed results in this area.



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.



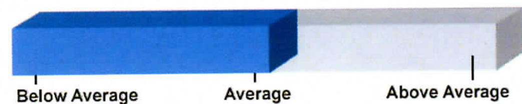
This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return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



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

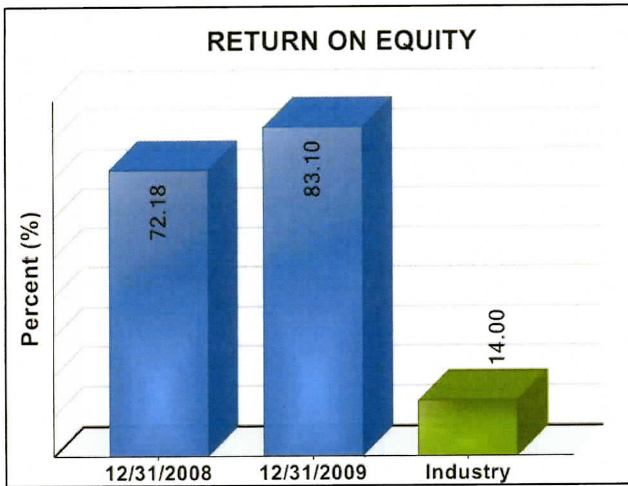
ASSETS

A measure of how effectively the company is utilizing its gross fixed assets.

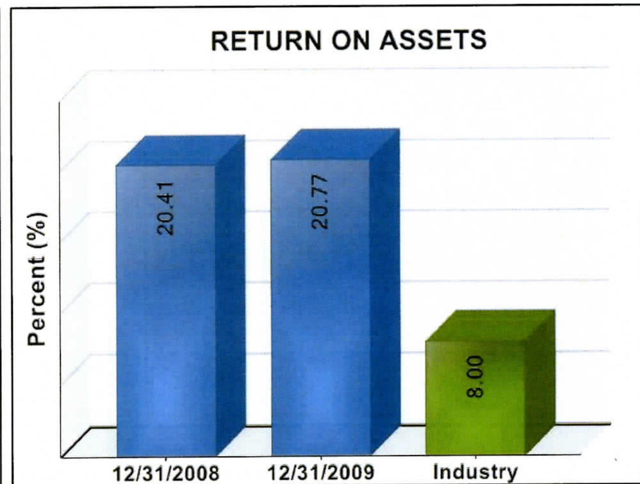


It is true that profitability improved by 7.27% from last period, which is a positive result. However, the rate of fixed asset growth exceeded the rate of profitability improvement. Not only is it important to improve profitability as fixed assets are added, it is also important to improve profitability **at a higher rate** than the rate by which assets are increased. Assets are a form of cost, and as costs, they should be minimized while the best level of profitability possible is pushed through them.

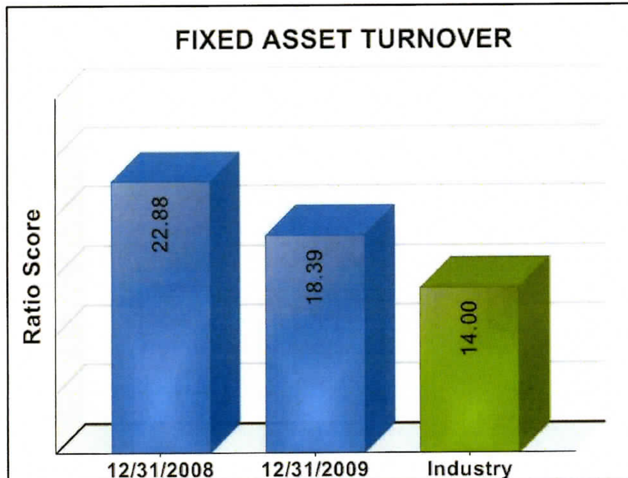
Notice that the company generated relatively strong returns on its assets and equity this period, which is a positive result. Earning a strong return on assets is important, because assets generally represent a cost that is expected to reap future economic benefits for the company.



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.



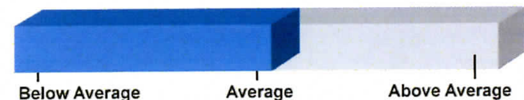
This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher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



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.

EMPLOYEES

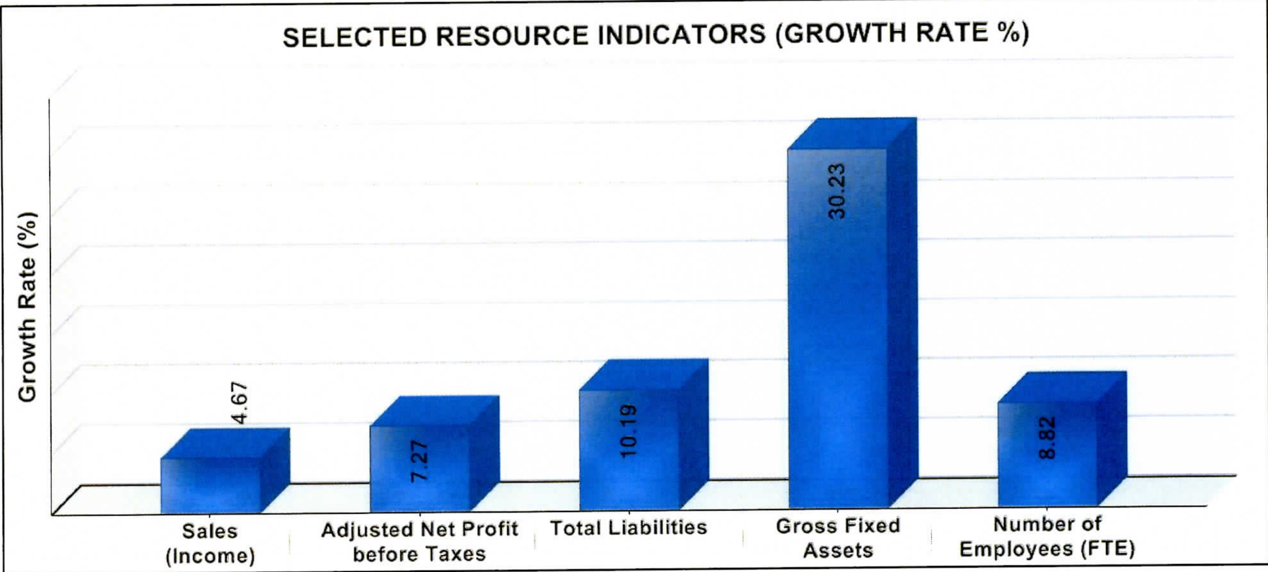
A measure of how effectively the company is hiring and managing its employees.



Since the prior period, this company has hired employees and improved net profitability, which is quite positive. However, it is unfavorable that the employee base has grown faster than net profitability. This is an undesirable situation **in the long run**, because it can potentially depress net profitability. It is generally unfavorable for the company to increase a resource (and thus a cost) without seeing a corresponding profitability increase.

Managers may still want to consider hiring people, but at this point they might want to only hire for positions that will contribute directly to the bottom line. This is especially true given that the company has also increased its fixed assets, as mentioned earlier in this report. It is important to keep in mind that these comments are based on analyzing a limited amount of data. Good hiring decisions are made based on solid financial projections and an analysis of the company's business needs.

"Every man acts directly in accordance with his own nature. Therefore, if you understand the nature of a man, you will anticipate all actions he will take." -- Marcus Aurelius



RAW DATA

	12/31/2008	12/31/2009
Income Statement Data		
Sales (Income)	$984,000	$1,030,000
Cost of Sales (COGS)	$750,000	$800,000
Gross Profit	$234,000	$230,000
Gross Profit Margin	23.78%	22.33%
G & A Payroll Expense	$100,500	$105,000
Rent	$12,000	$12,500
Advertising	$13,000	$13,500
Depreciation	$23,000	$30,000
Interest Expense	$9,000	$11,000
Net Profit before Taxes	$55,000	$59,000
Adjusted Net Profit before Taxes	$55,000	$59,000
Net Profit Margin	5.59%	5.73%
EBITDA	$87,000	$100,000
Net Income	$55,000	$59,000
Balance Sheet Data		
Cash (Bank Funds)	$44,000	$13,000
Accounts Receivable	$108,000	$85,000
Inventory	$115,000	$95,000
Total Current Assets	$267,000	$193,000
Gross Fixed Assets	$43,000	$56,000
Total Assets	$269,500	$284,000
Accounts Payable	$83,000	$85,000
Total Current Liabilities	$87,000	$90,000
Total Liabilities	$193,300	$213,000
Total Equity	$76,200	$71,000
Number of Employees (FTE)	17.0	18.5

COMMON SIZE STATEMENTS

	12/31/2008	12/31/2009	Industry* (3573)
Income Statement Data			
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	76%	78%	80%
Gross Profit	24%	22%	20%
G & A Payroll Expense	10%	10%	8%
Rent	1%	1%	1%
Advertising	1%	1%	1%
Depreciation	2%	3%	1%
Interest Expense	1%	1%	1%
Net Profit before Taxes	6%	6%	3%
Adjusted Net Profit before Taxes	6%	6%	4%
EBITDA	9%	10%	6%
Net Income	6%	6%	3%
Balance Sheet Data			
Cash (Bank Funds)	16%	5%	9%
Accounts Receivable	40%	30%	12%
Inventory	43%	33%	9%
Total Current Assets	99%	68%	80%
Gross Fixed Assets	16%	20%	39%
Total Assets	100%	100%	100%
Accounts Payable	31%	30%	13%
Total Current Liabilities	32%	32%	56%
Total Liabilities	72%	75%	84%
Total Equity	28%	25%	16%

*The industry common size figures shown above were taken from all private company data for companies with industry code 23611 for all years in all areas with yearly sales $1 million to $10 million.

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio	2.14	1.50 to 2.50	0.00%

= Total Current Assets / Total Current Liabilities

Explanation: 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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Quick Ratio	1.09	0.60 to 1.20	0.00%

= (Cash + Accounts Receivable) / Total Current Liabilities

Explanation: 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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Inventory Days	43.34 Days	10.00 to 30.00 Days	-44.47%

= (Inventory / COGS) * 365

Explanation: 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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Receivable Days	30.12 Days	5.00 to 30.00 Days	-0.40%

= (Accounts Receivable / Sales) * 365

Explanation: 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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Payable Days	38.78 Days	10.00 to 30.00 Days	-29.27%

= (Accounts Payable / COGS) * 365

Explanation: 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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Gross Profit Margin	22.33%	15.00% to 28.00%	0.00%

= Gross Profit / Sales

Explanation: 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).

Financial Indicator	Current Period	Industry Range	Distance from Industry
Net Profit Margin	5.73%	0.50% to 5.00%	+14.60%

= Adjusted Net Profit before Taxes / Sales

Explanation: 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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Advertising to Sales	1.31%	0.75% to 2.00%	0.00%

= Advertising / Sales

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
Rent to Sales	1.21%	0.50% to 1.80%	0.00%

= Rent / Sales

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
G & A Payroll to Sales	10.19%	8.00% to 17.00%	0.00%

= G & A Payroll Expense / Sales

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

Ratio	Value	Range	Variance
Interest Coverage Ratio = EBITDA / Interest Expense	9.09	4.00 to 12.00	0.00%

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.

Ratio	Value	Range	Variance
Debt-to-Equity Ratio = Total Liabilities / Total Equity	3.00	2.00 to 5.00	0.00%

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.

Ratio	Value	Range	Variance
Debt Leverage Ratio = Total Liabilities / EBITDA	2.13	N/A	N/A

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

Ratio	Value	Range	Variance
Return on Equity = Net Income / Total Equity	83.10%	8.00% to 20.00%	+315.50%

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.

Ratio	Value	Range	Variance
Return on Assets = Net Income / Total Assets	20.77%	6.00% to 10.00%	+107.70%

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.

Ratio	Value	Range	Variance
Fixed Asset Turnover = Sales / Gross Fixed Assets	18.39	8.00 to 20.00	0.00%

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.).