Report prepared for: ABC Company
Industry: 339999 - All Other Miscellaneous Manufacturing
Periods: 12 months against the same 12 months from the previous year

LIQUIDITY

PROFITS & PROFIT MARGIN

SALES

BORROWING

ASSETS

LIQUIDITY

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

Operating Cash Flow Results
Cash flow from operations is poor, which is unfavorable because the overall liquidity position of the company is also somewhat soft, as will be discussed below. It is always important to know how cash flow can be improved - from either Balance Sheet and/or from Income Statement transactions. Usually, slight tweaks in both areas can improve cash flow. In this specific case, look at how to improve unfavorable trends/changes in working capital accounts, like decreasing current asset accounts or maintaining current liability accounts.

General Liquidity Conditions
The company has been able to improve its profitability from last period, which is positive. Ultimately, the best way to improve the liquidity position over time is to continue to increase profitability. It is also good that the firm has improved its net income margin. Margins show how well expenses are being controlled, an important factor in managing cash flow. **Liquidity has improved at least as of this specific Balance Sheet date**. This is critical because liquidity was weaker last period. Trends are more important than raw data in this area. It is always good to see liquidity moving in the right direction.

On the other hand, managers should keep in mind that **there still seems to be some weakness in the liquidity position**. Specifically, managers might consider moving more money into the cash accounts or other highly liquid accounts, if appropriate.

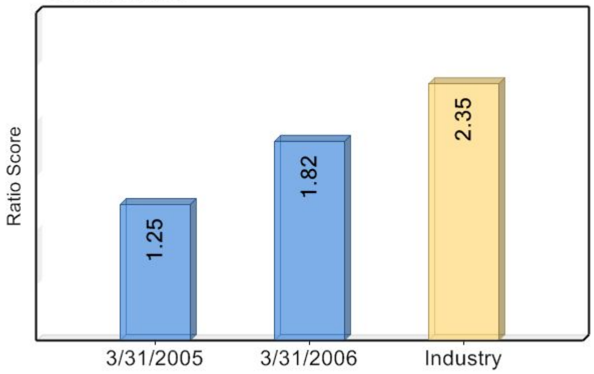
The company seems to have some difficulty with its accounts payable days number, which could indicate some delay in paying vendor accounts. However, it is doing a good job with accounts receivable days, indicating that it is collecting money owed to it in a timely manner. Over time, it would be positive for the company to lower its accounts payable days and inventory days (which is currently about average) while concurrently maintaining its good accounts receivable days.

Tips For Improvement
Here are some ways that liquidity might be improved in this particular business:

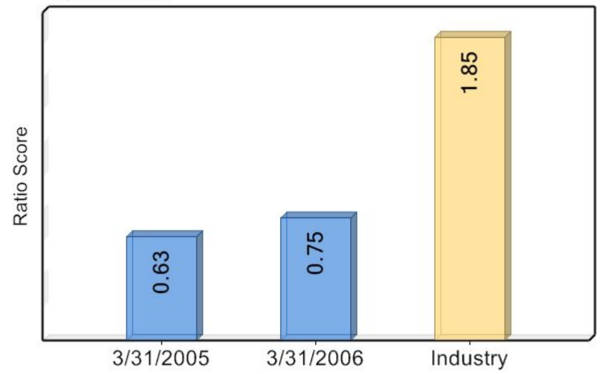
- Bill customers more quickly in order to speed up the collection process (billing cycle) and get funds into the business faster. If customers are billed, on average, even three days earlier each month, the business's cash position can improve significantly.
- Provide discounts to customers who pay early in order to speed up collections. Under certain circumstances, these cash receipts can be invested in growth or higher interest rate accounts.

- Keep inventory/supply levels as low as possible without adversely affecting the business. This can ultimately help the business keep more money free in the future. To do this effectively, make sure the business is using a good system to forecast inventory needs.
- Use as much trade credit or vendor financing as is reasonable/possible -- this is the best form of short-term financing. Trade credit is financing the business receives from suppliers when they provide services and then bill the business. It is typically free debt (in accounts payable) because it does not carry interest.

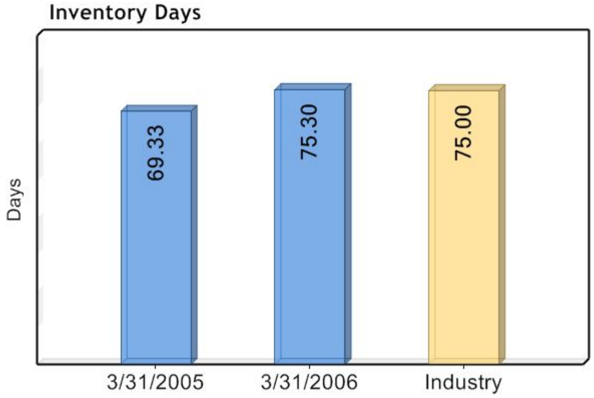
Current Ratio



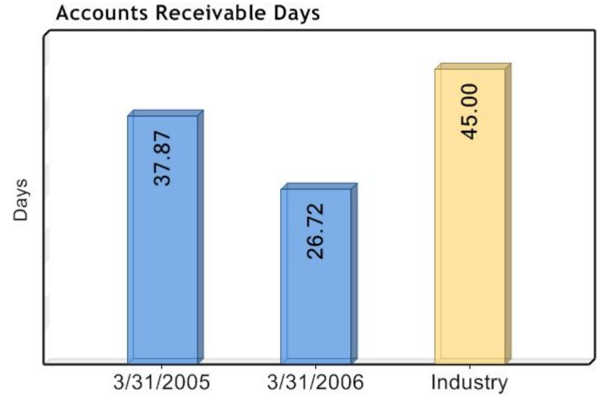
Quick Ratio



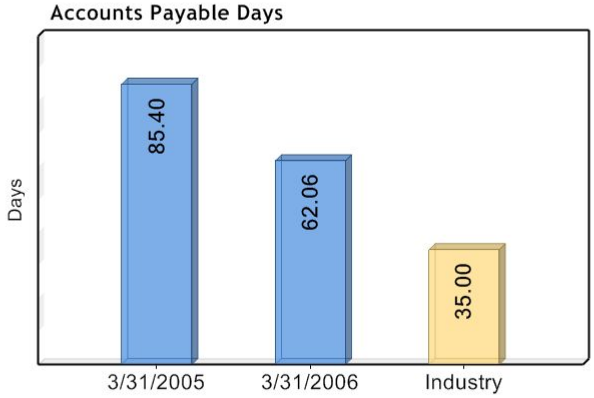
Inventory Days



Accounts Receivable Days



Accounts Payable Days



PROFITS & PROFIT MARGIN

Are profitability trends favorable in the company?

Despite experiencing sales that have remained relatively flat since the prior period, the company has done solid work in the Profitability area at this time. The company's net profit margin is currently at an average level, both overall and relative to the net margins that are being earned by other firms in this industry. More importantly, the company's net profit margin has improved by 216.87% since the prior period, which means that the company is now retaining as net profit a higher percentage of every dollar it earns in sales revenue. As a result of the improvement in the net profit margin, the company is now earning considerably more net profits (in dollars) than it did last period, which is clearly good.

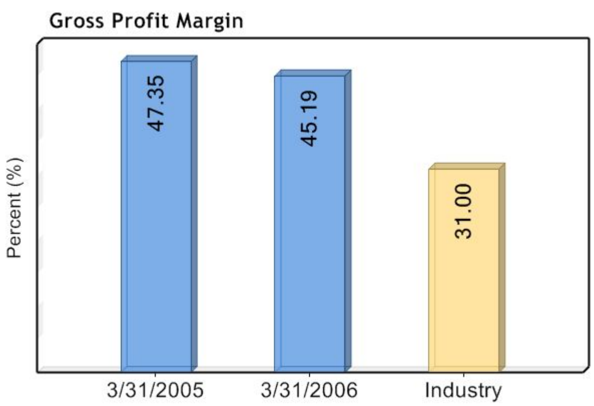
It is particularly positive that the company has been able to achieve an improved net profit margin and increased net profit dollars on a relatively stable level of sales. This means that the company has cut some significant overhead or operating expenses in order to increase its profits. When a company can lower costs and not hurt its operations, the quality of its products, or its profits, it is often setting itself up for strong future performance. If the company can increase sales in the future on its current lower costs, it may be able to earn considerably more net profits in the coming financial periods.

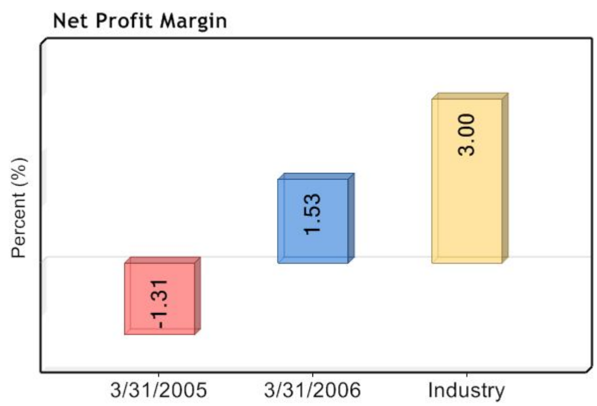
The only critique that might be made here is that companies generally prefer to avoid flat sales, especially when profitability is only about average for the industry in which the company competes. The company will want to be building on the customer base at all times in order to increase sales consistently over time. We are only looking at a limited amount of data here, but the thought that sales should improve at a healthy rate between most periods should generally hold true.

Tips For Improvement

Good profit managers make continuous and small adjustments to improve their businesses. Managers might possibly consider the following to improve profits over time:

- 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.
- Reduce payroll costs, including any overtime expenses as applicable, by maintaining an ideal number of employees and monitoring the number of hours that each employee works.
- Obtain internal reports that identify the business's key performance indicators (KPIs). KPIs help managers make good decisions by identifying the figures that are critical to performance. Net profit is not a KPI -- profits are a result of managing KPIs well.
- Monitor the costs going into all office supplies. With more important costs being monitored closely, many businesses forget to look at this smaller cost, and often allow it to be higher than necessary.

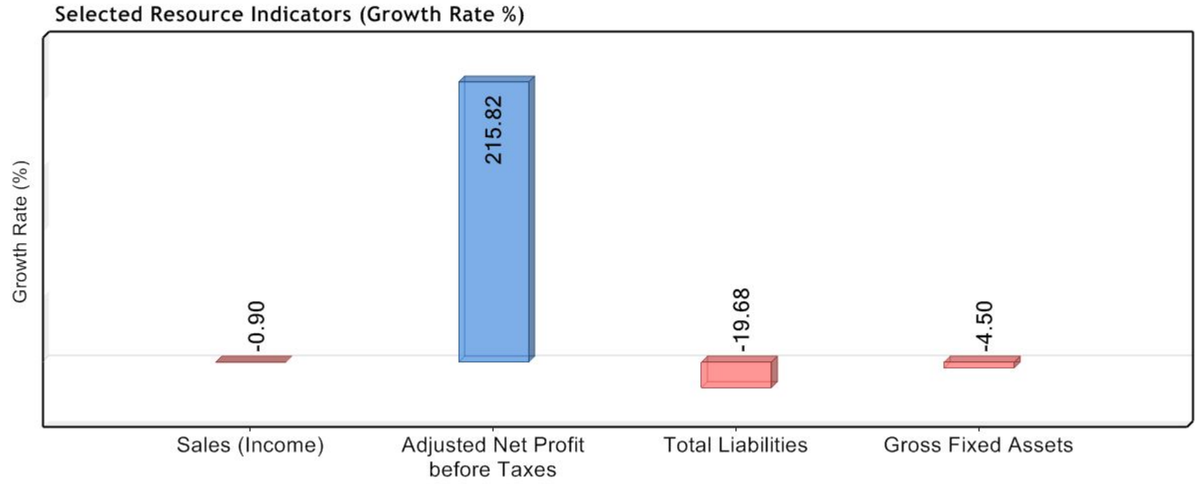




SALES

Are sales growing and satisfactory?

When there is little change in a company's sales management area, it is difficult to draw conclusive results. In this case, sales have been maintained on approximately the same fixed asset base. It is more important to focus on profitability results than on sales results, but as a general rule it is usually important to keep increasing sales over time. This is because expenses tend to increase over time, so for most companies, sales should always be growing at least moderately.



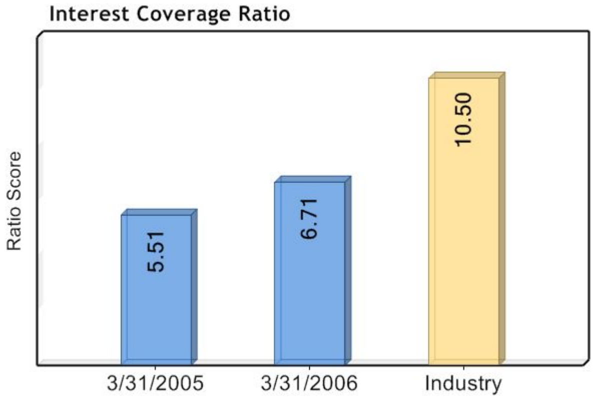
BORROWING

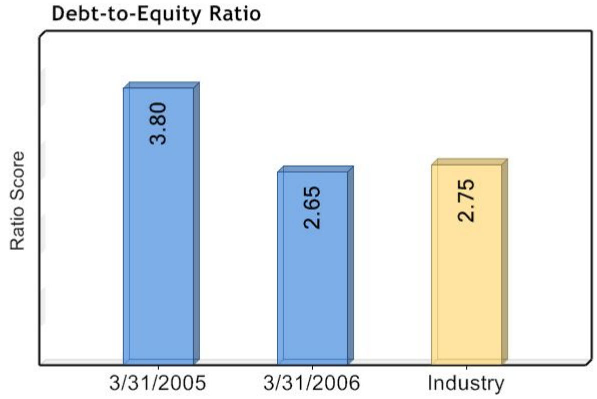
Is the company borrowing profitably?

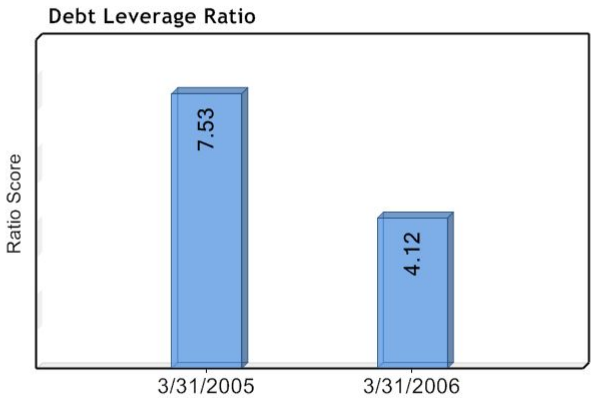
Net profitability improved by 215.82% while debt was lowered. In other words, a reduction in total debt coincided with improved profitability, at least for this period. Not only this, but the net profit margins and overall liquidity actually improved. This is a very good situation -- profitability was able to expand without additional debt. This dynamic should help long-term profitability, especially if it can be continued over multiple periods.

It should also be noted that the company is generating an average amount of cash flow from operations relative to its cost of debt payments. For example, notice that one of the company's coverage ratios (cash flow as compared to debt load) is in a normal range. "Normal" as defined in the context of this report means average but not necessarily great, so it would be important to monitor results in this area in the future. The company is also holding an average amount of debt as compared to assets (its debt to equity ratio is in the norm).

Capacity planning is a challenge here. This involves simply thinking out into the future: how long can profitability improve without increasing borrowing? Analyzing the relationship between investments in resources (such as assets) and profitability improvement, as well as effectively forecasting sales and cash flow, can help answer this question and lead to the best borrowing policies for the near future.





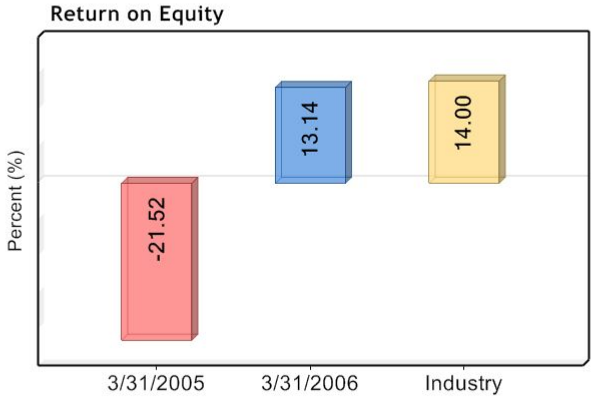


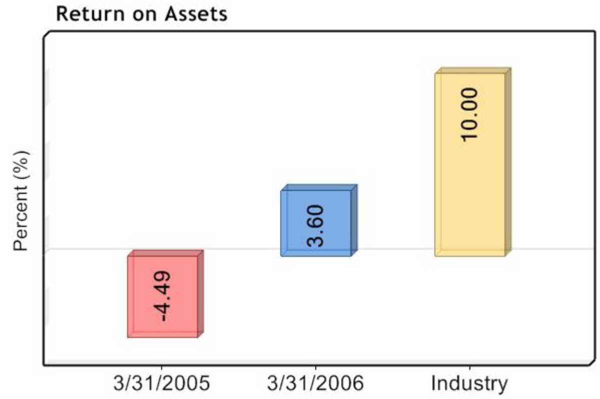
ASSETS

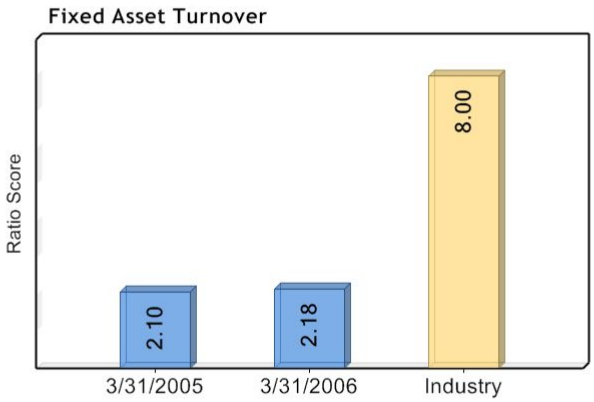
Is the company using gross fixed assets effectively?

This period, profitability improved significantly but fixed asset levels stayed relatively flat. This means: 1) profitability was able to improve without adding assets, and 2) the company **may** not need additional assets to continue to improve profitability at this specific time. In other words, the company may be able to grow profitability a bit more with the level of assets currently in place. This should also continue to help improve net margins, which also improved this period. An improvement in net margins is an indication of improved efficiency as the company has a relatively stable asset base.

Despite a positive trend (and the fact that the company has an "average return on equity"), there is also some significant "softness" in both return on assets and fixed asset turnover, which are both low. This means that the company is not driving enough profits or revenue through its asset base -- not a positive finding. Therefore, although the company is receiving a relatively good score in this area, there is some clear weakness that should be improved over time.







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.

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.82	1.50 to 3.20	0.00%
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	0.75	1.20 to 2.50	-37.50%
Inventory Days = (Inventory / COGS) * 365	75.30 Days	60.00 to 90.00 Days	0.00%
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	26.72 Days	30.00 to 60.00 Days	+10.93%
Accounts Payable Days = (Accounts Payable / COGS) * 365	62.06 Days	20.00 to 50.00 Days	-24.12%
Gross Profit Margin = Gross Profit / Sales	45.19%	25.00% to 37.00%	+22.14%
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	1.53%	1.00% to 5.00%	0.00%
Interest Coverage Ratio = EBITDA / Interest Expense	6.71	6.00 to 15.00	0.00%
Debt-to-Equity Ratio = Total Liabilities / Total Equity	2.65	1.50 to 4.00	0.00%

Current Ratio — **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.

Quick Ratio — **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).

Inventory Days — **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.

Accounts Receivable Days — **Explanation:** This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity.

Accounts Payable Days — **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.

Gross Profit Margin — **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 future sales.

Net Profit Margin — **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.

Interest Coverage Ratio — **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.

Debt-to-Equity Ratio — **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.

Debt Leverage Ratio = Total Liabilities / EBITDA	4.12	N/A	N/A

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

Return on Equity = Net Income / Total Equity	13.14%	8.00% to 20.00%	0.00%

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.

Return on Assets = Net Income / Total Assets	3.60%	6.00% to 14.00%	-40.00%

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.

Fixed Asset Turnover = Sales / Gross Fixed Assets	2.18	4.00 to 12.00	-45.50%

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.

Z-Score	4.71	1.23 to 2.90	+62.41%

= 0.717X1 + 0.847X2 + 3.107X3 + 0.42X4 + 0.998X5 X1 = (Current Assets - Current Liabilities) / Total Assets X2 = Retained Earnings / Total Assets X3 = EBIT / Total Assets X4 = Total Equity / Total Liabilities X5 = Sales / Total Assets

Explanation: The Z-Score is a ratio which measures the overall health of a business. In some cases, it can be used as an early predictor of a business's probability of bankruptcy in the next year. How to interpret the Z-Score: a score of 2.90 or above implies a low risk of bankruptcy; a score between 1.23 and 2.90 is an average risk; a score of 1.23 or lower signals a high risk of bankruptcy.

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.