

## 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.

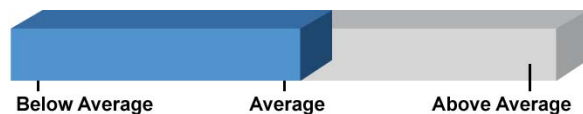
### Snapshot of: **Sample Retail Establishment**

**Industry:** 45311 - Florists

**Revenue:** Less than \$1M

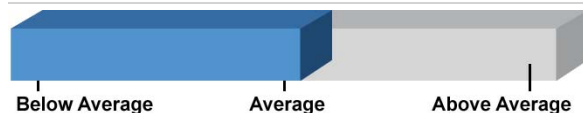
**Periods:** 12 months against the same 12 months from the previous year

### Financial Score for Sample Retail Establishment



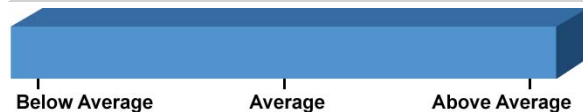
#### LIQUIDITY -

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



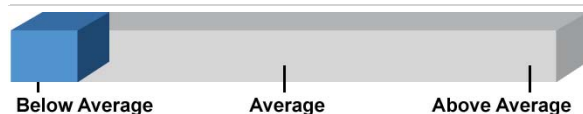
#### PROFITS & PROFIT MARGIN -

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.



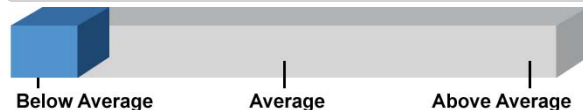
#### BORROWING -

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.



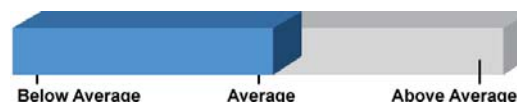
#### EMPLOYEES -

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

### Financial Analysis for Sample Retail Establishment

#### LIQUIDITY

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



This period, this company has a good overall liquidity position. In fact, what may be more important is that **all of the firm's liquidity numbers are moving up**. With liquidity, trends are even more important than raw numbers because liquidity is generally such a quickly changing condition.

It is excellent that the company's cash and near-cash resources have grown relative to obligations. This is particularly important because last period the company had a little too much liquidity tied up in non-cash assets. In fact, even now it might be good to make more "investments" in these highly liquid accounts.

Are there any negative trends that might hurt the firm's liquidity in the future? Just one -- the net profit margin is down quite a bit, as we will discuss in the next section. It's important to mention that margins direct long-term liquidity in the company. The Income Statement and the Balance Sheet influence each other from this perspective.

#### Tips For Improvement

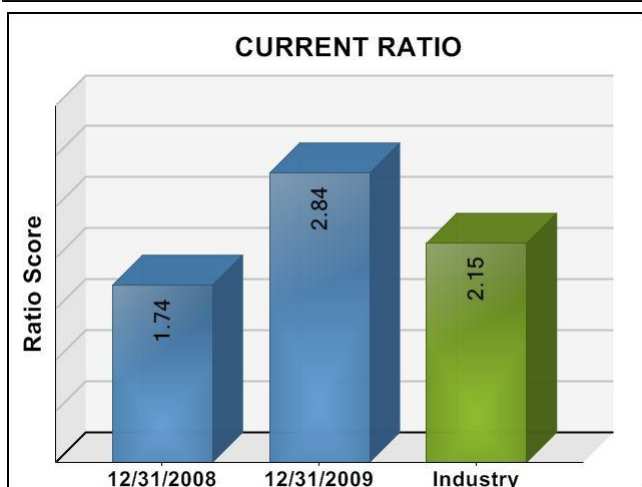
Here are some possible actions that management might consider if appropriate (these are ideas that might be thought about):

- Barter to help maintain cash in the business. A florist who needs flyers printed, for instance, may be

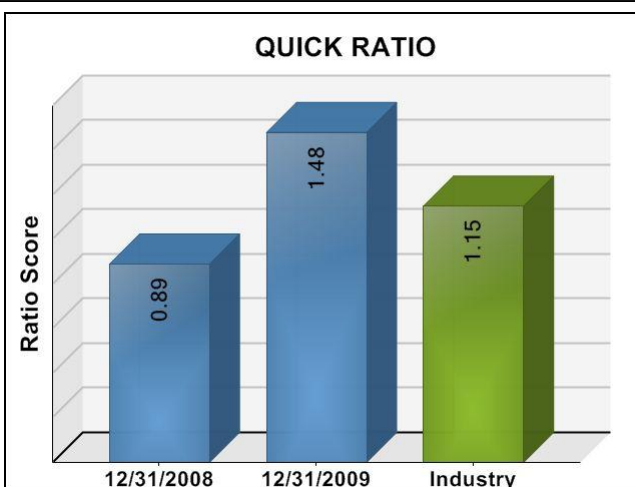
able to arrange a deal with the local printer who wants to reward a special client with a floral arrangement. Remember to consider any tax consequences that could arise from bartering.

- Watch the payment terms of credit cards, if they are accepted by the business. For example, some credit cards have payment terms of ten days as opposed to the one day terms of others. Longer terms prevent the business from collecting actual payments until much later.
- Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis. This can help predict/prepare for potential cash shortfalls that may occur in the future.
- Set longer terms for Accounts Payable when possible. For example, increase a 30 day payment window to 60 days.

**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.



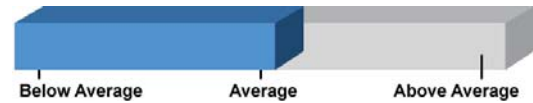
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the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

Financial Indicator	12/31/2008	12/31/2009
<b>Working Capital</b> = Total Current Assets - Total Current Liabilities	\$13,300	\$21,200
<b>Explanation:</b> This is the capital that finances continuing operations of the company. It is normally used to manufacture, sell, and receive payment for products and services. Working Capital shows the available liquidity resources after current obligations are met. The higher the better.		
<b>Accounts Receivable Days</b> = (Accounts Receivable / Sales) * 365	41.49 Days	39.51 Days
<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.		
<b>Accounts Payable Days</b> = (Accounts Payable / COGS) * 365	39.29 Days	22.66 Days
<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.		
<b>Inventory Days</b> = (Inventory / COGS) * 365	72.43 Days	65.87 Days
<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.		

<b>Operating Cash Flow</b> = Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	\$10,000	\$9,300
<b>Explanation:</b> Operating Cash Flow or Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a key indicator of a company's ability to generate cash to meet obligations. This indicates the positive cash flow that a company generates from continuing operations. The higher the better.		
<b>Operating Cycle</b> = Accounts Receivable Days + Inventory Days	113.92 Days	105.38 Days
<b>Explanation:</b> Operating Cycle represents the number of days between the time a product is added to inventory (if any) and the time when cash is actually received. The lower the better.		

## PROFITS & PROFIT MARGIN

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



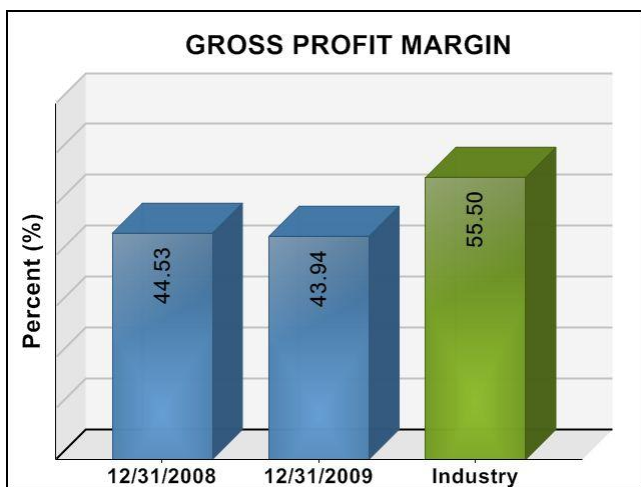
This company does have an issue to address with regard to Income Statement performance: operating expenses. Even though sales are higher, net profits and net profit margins actually fell this period. This means that the company spent significantly more money on operating costs. Generally, it is acceptable to spend money on operating costs; the problem in this case is that the increased expenditures have not generated any more net profits in the company, at least as of yet. Right now, **net profit margins are still relatively healthy for the business this company is in**, but further margin reductions could put the company in a weaker position. Managers should not overreact to these one-time results, but they will want to monitor net margins quite closely in the future. After all, while it is true that the company's net profitability is "average", it is not outstanding for this industry. This is evident in the graph area of the report.

However, there is one more point to consider as well. It should be determined whether management is deliberately trying to keep profits and margins at only "average" levels. Perhaps the company is investing in future growth -- expenses that will push higher long-term profits and sales? If this is the case, it is **not necessarily** true that profits in the firm should be pushed higher immediately.

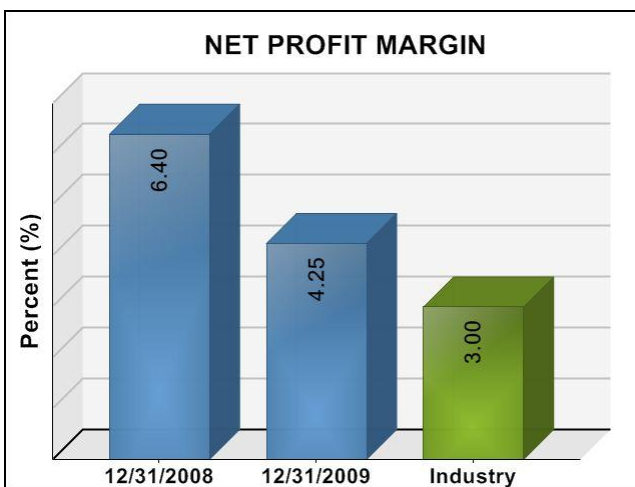
### Tips For Improvement

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

- Cultivate and strengthen customer relationships by educating customers. Don't just sell flowers, but also provide information on different flower varieties as well as how to care for purchases.
- Form cooperative arrangements with neighboring florists to get volume deals on the purchase of vases, ribbons, foam, etc.
- 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.
- Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts). This should allow management the ability to pull "variance reports", which compare budgeted revenues and expenses with actual revenues and expenses.



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).

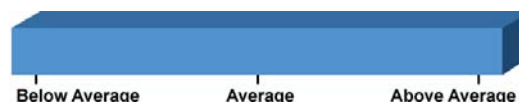


This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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

Financial Indicator	12/31/2008	12/31/2009
<b>Operating Cash Flow Margin</b> = EBITDA / Sales	7.19%	5.99%
<b>Explanation:</b> This percentage indicates how much cash flow a company realizes from each dollar of sales. The higher the better.		
<b>Return on Equity</b> = Net Income / Total Equity	20.00%	12.25%
<b>Explanation:</b> 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.		
<b>Labor Cost Ratio</b> = G & A Payroll Expense / Sales	23.02%	25.77%
<b>Explanation:</b> This measure shows what percentage of sales dollars are being spent on employees. The lower the better.		

## SALES

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



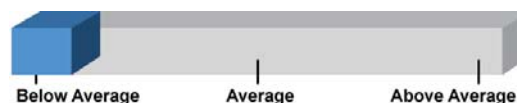
Sales increases themselves do not mean very much. As has already been discussed, companies are more interested in net profitability. This is also true because it is relatively easy to interpret sales changes -- they are either up or down. However, it is important to explore this area a bit more carefully, because these results are fairly intriguing. For example, the company has been able to drive in more sales with about the same amount of fixed assets. Basically, the company is "driving" more sales through relatively the same level of resources, which is a good situation when specifically analyzing sales results. This dynamic will **typically** yield higher net profitability in the long run.

Financial Indicator	12/31/2008	12/31/2009
<b>Sales per Employee</b> = Sales / Total Employees (FTE)	\$69,500	\$77,600
<b>Explanation:</b> This measure shows the annualized sales being generated per employee.		
<b>Fixed Asset Turnover</b> = Sales / Gross Fixed Assets	5.63	5.99

**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.

## BORROWING

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



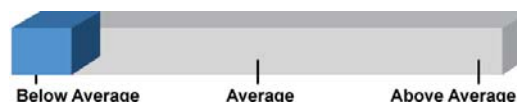
This company reduced debt, but reduced profitability at the same time. Indeed, net profitability decreased at a faster rate than debt, which is not a favorable result in the short run. Furthermore, net margins slipped.

When liabilities go down, it is best to see improvements in profitability. At a minimum, the company would only want to see profitability decrease proportionally to the debt reduction -- not to a greater extent, which is what occurred here. Furthermore, as discussed in the Profitability section, the company lost some efficiency, which pulled down the results in the borrowing area. On the positive side, "overall liquidity" improved, which is fairly typical when debt is reduced.

Financial Indicator	12/31/2008	12/31/2009
<b>Debt-to-Equity Ratio</b> = Total Liabilities / Total Equity <b>Explanation:</b> 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.	0.60	0.44
<b>Debt Leverage Ratio</b> = Total Liabilities / EBITDA <b>Explanation:</b> This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).	2.10	1.91
<b>Interest Coverage Ratio</b> = EBITDA / Interest Expense <b>Explanation:</b> 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.	7.69	5.17

## ASSETS

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

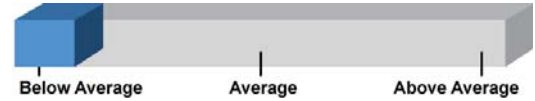


In this case, the company kept about the same level of assets but **less profitability is being generated**. This means that lower profitability moved through a relatively stable asset base. As mentioned in the Profitability section, the net profit margin also fell, which means that the company is operating less efficiently than last period. Over time, companies usually expect to improve efficiency, even when operating on a relatively unchanged asset base.

Financial Indicator	12/31/2008	12/31/2009
<b>Return on Assets</b> = Net Income / Total Assets <b>Explanation:</b> 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.	12.50%	8.53%
<b>Asset Composition</b> = Total Current Assets / Total Assets <b>Explanation:</b> This ratio measures the proportion of current assets to total assets. A lower ratio would indicate that a company has significant investments in long-term assets and less flexibility in meeting short-term obligations.	55.89%	55.80%

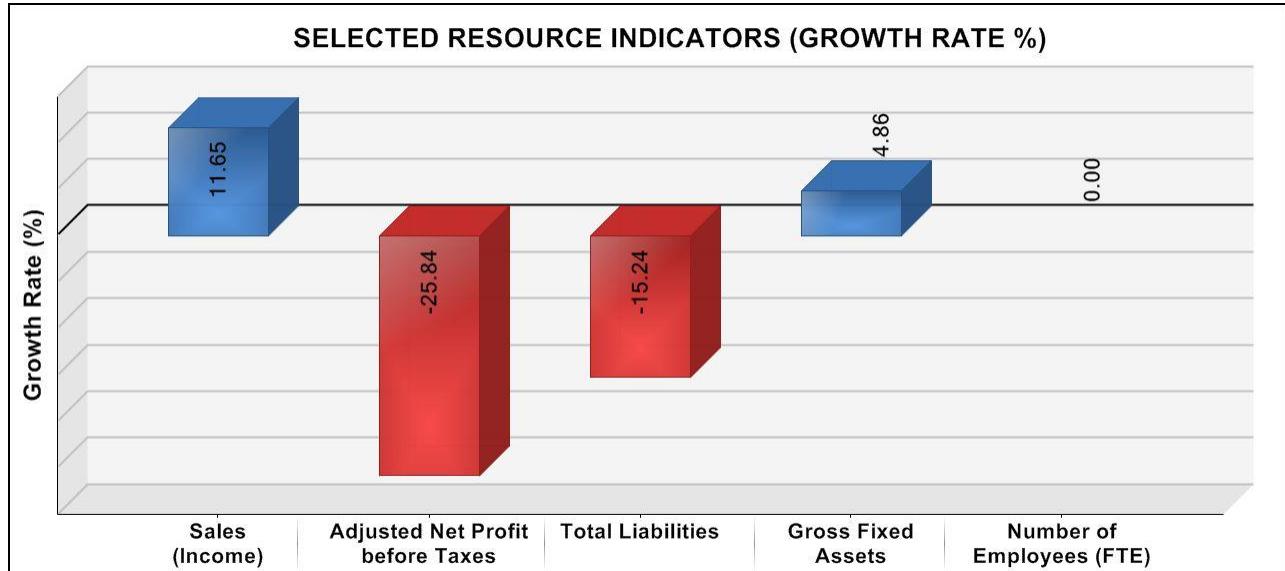
## EMPLOYEES

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



Employee levels have stayed relatively the same, but net profitability is down. The company is now generating a lower level of profitability per each employee, which is a key performance indicator for this industry. Of course, these are observations based **upon only one** period of change data, but managers still need to make a note of this potentially negative trend. **Over the long run**, resources such as employees should lever higher multiples of profitability for the company.

"Well done is better than well said." -- Benjamin Franklin



Financial Indicator	12/31/2008	12/31/2009
<b>Return on Labor</b> = Adjusted Net Profit before Taxes / G & A Payroll Expense	27.81%	16.50%
<b>Explanation:</b> This indicator represents the percentage of profit generated from each dollar invested in employee compensation.		
<b>Profit per Employee</b> = Adjusted Net Profit before Taxes / Total Employees (FTE)	\$4,450	\$3,300
<b>Explanation:</b> This indicator represents the annualized amount of profit that each employee is generating.		

**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.

## RAW DATA

	12/31/2008	12/31/2009
<b>Income Statement Data</b>		
Sales (Income)	\$139,000	\$155,200
Cost of Sales (COGS)	\$77,100	\$87,000
Gross Profit	\$61,900	\$68,200
Gross Profit Margin	44.53%	43.94%
G & A Payroll Expense	\$32,000	\$40,000
Depreciation	\$1,700	\$2,500
Interest Expense	\$1,300	\$1,800
Net Profit before Taxes	\$7,000	\$5,000
Adjusted Net Profit before Taxes	\$8,900	\$6,600
Net Profit Margin	6.40%	4.25%
EBITDA	\$10,000	\$9,300
Net Income	\$7,000	\$5,000

### Balance Sheet Data

Cash (Bank Funds)	\$200	\$200
Accounts Receivable	\$15,800	\$16,800
Inventory	\$15,300	\$15,700
Total Current Assets	\$31,300	\$32,700
Gross Fixed Assets	\$24,700	\$25,900
Total Assets	\$56,000	\$58,600
Accounts Payable	\$8,300	\$5,400
Total Current Liabilities	\$18,000	\$11,500
Total Liabilities	\$21,000	\$17,800
Number of Employees (FTE)	2.0	2.0

**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.).