FINANCIAL ANALYSIS REPORT

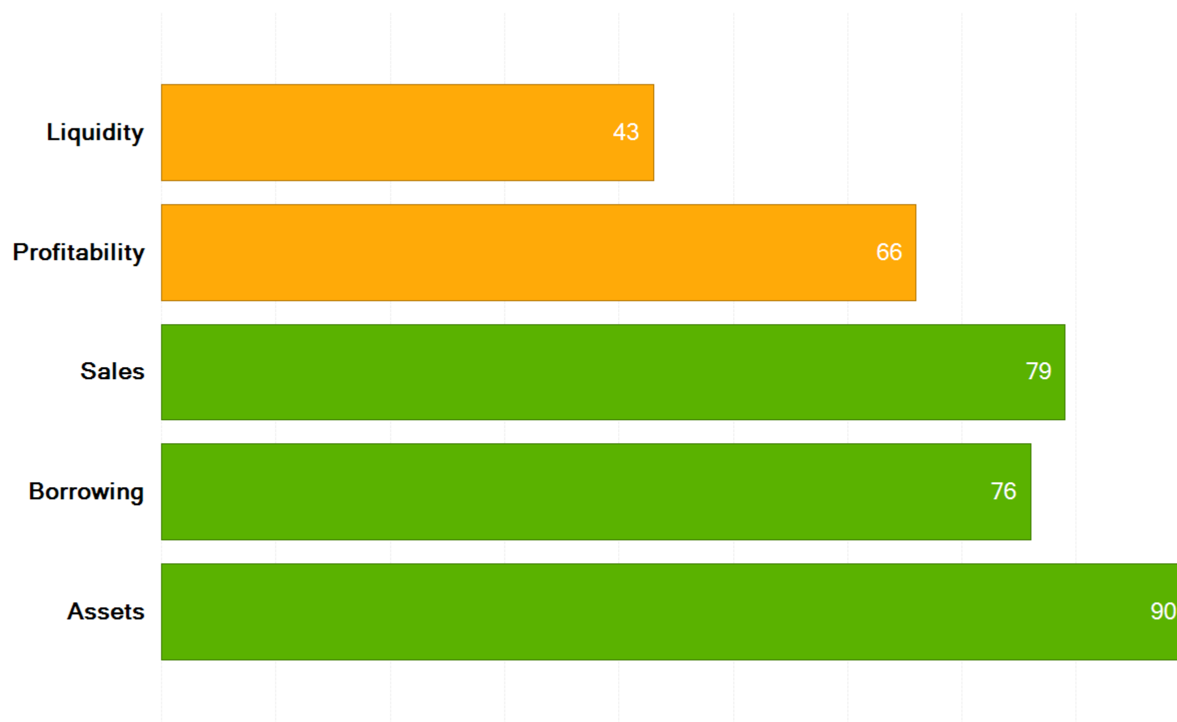
FOR THE YEAR ENDED DECEMBER 31, 2014

PREPARED BY

GOMERDINGER & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

YOUR GOALS. OUR SOLUTIONS. INFINITE POSSIBILITIES.

Report Summary



Liquidity 43 out of 100

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

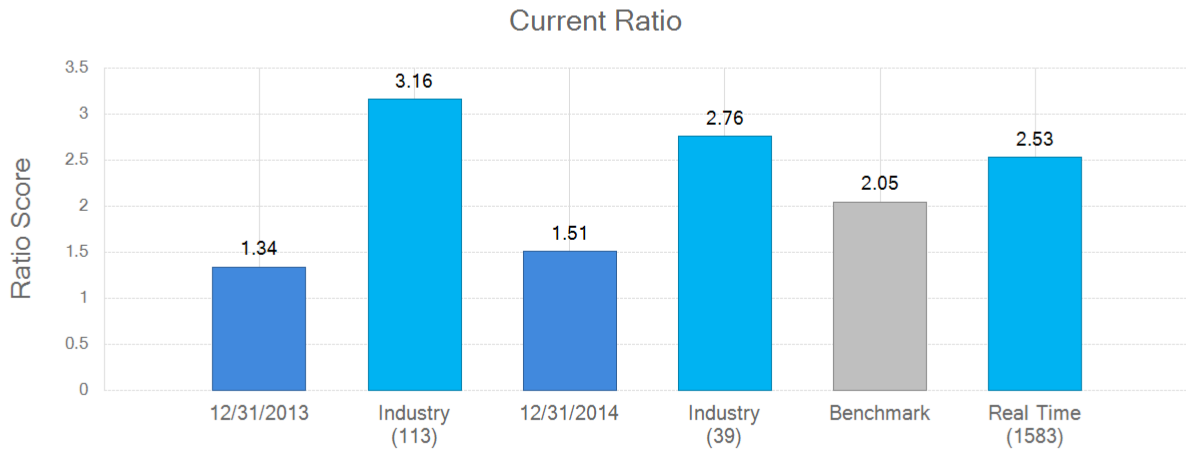
Operating Cash Flow Results
Cash flow from operations for ABC Company has increased relative to sales since last year, and is at a modest level overall. Given that there may be some weakness in the company's short-term liquidity position, it is good to see that at least positive cash flow is being generated. Now may be a good time to look at the Statement of Cash Flows, to see if small adjustments can be made to free up cash and boost overall liquidity.

General Liquidity Conditions
Are sales increases consuming cash in the Company? **It is rather common for growing companies to have liquidity difficulties from time to time**, as ABC Company is experiencing. As was the case last year, the Company does not appear to have enough cash and near-cash assets in reserve to be in a comfortable position at this time. This analysis is made by comparing the Company's cash accounts to its current obligations (the quick ratio). Profitability has increased significantly, but liquidity has not improved where it was weakest -- in the cash and near-cash accounts.

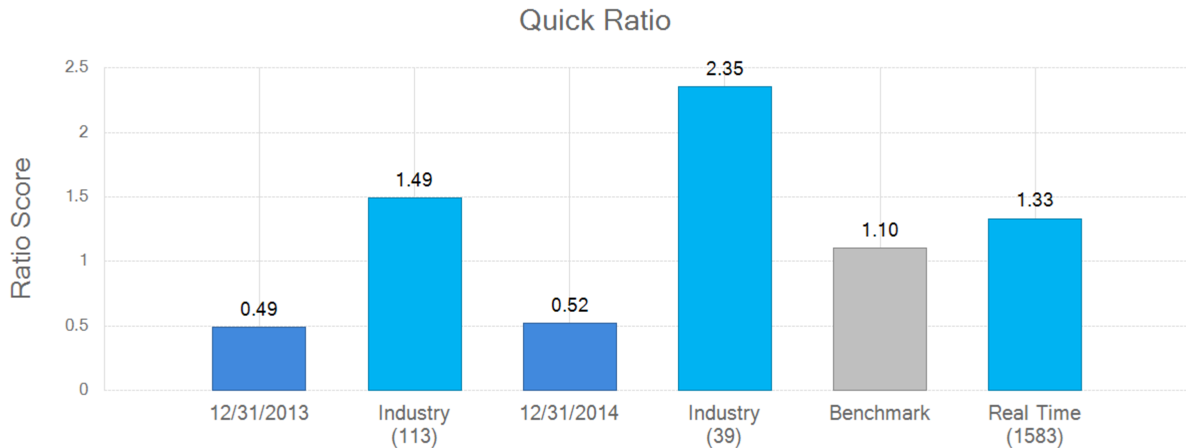
It should be noted that ABC Company's **overall liquidity position has improved** (measured by the current ratio) and is fair. There are more total current assets relative to obligations, which is good. A good next step may be to find a way to move resources up to the cash accounts. While it is positive that the overall liquidity position has improved, the Company may need more money invested in the top portion of its Balance Sheet.

With regard to liquidity turnover results, the Company seems to be collecting its receivables efficiently but **may be having some problems selling inventory as quickly as its competition**. This is indicated by the company's relatively low accounts receivable days and its high inventory days. It may be important to monitor these metrics over time, since they can have a significant impact on the cash account.

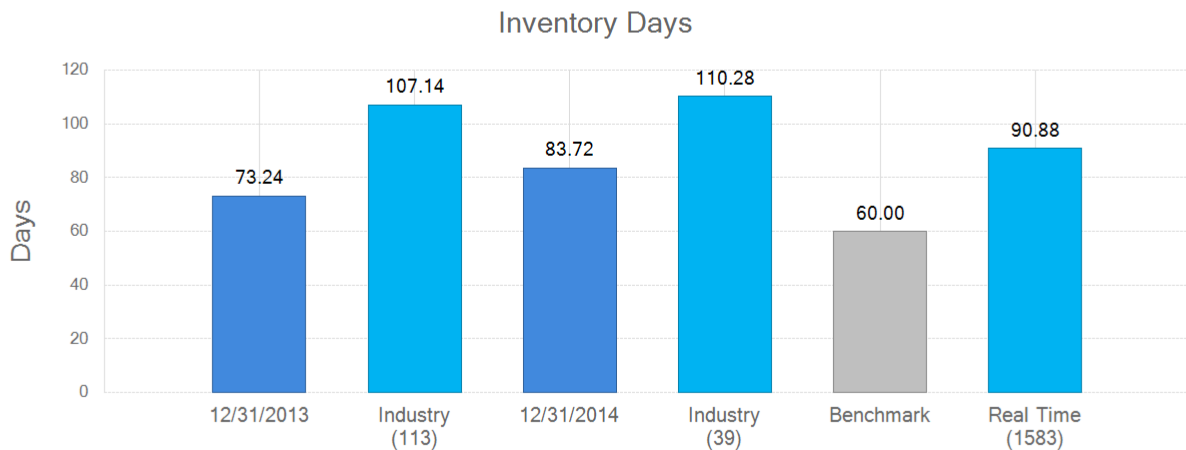
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



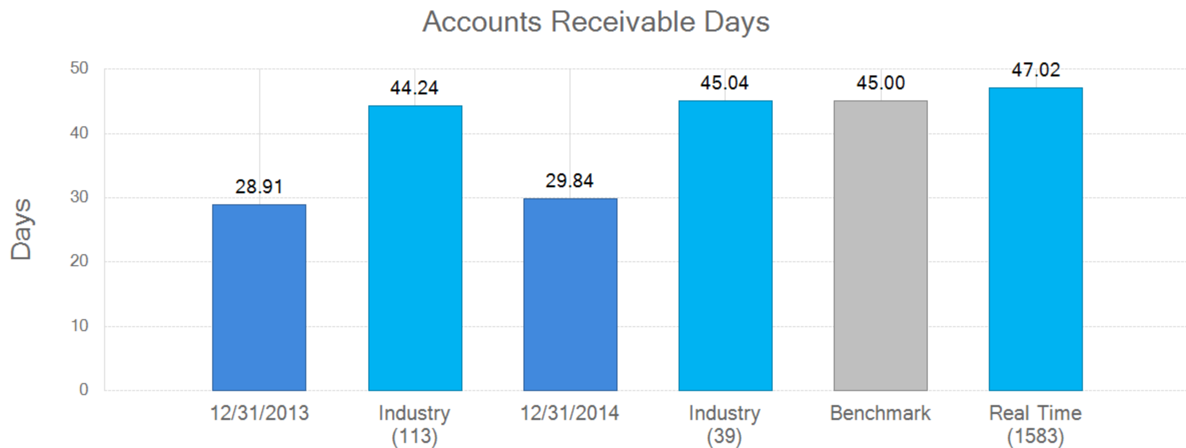
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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



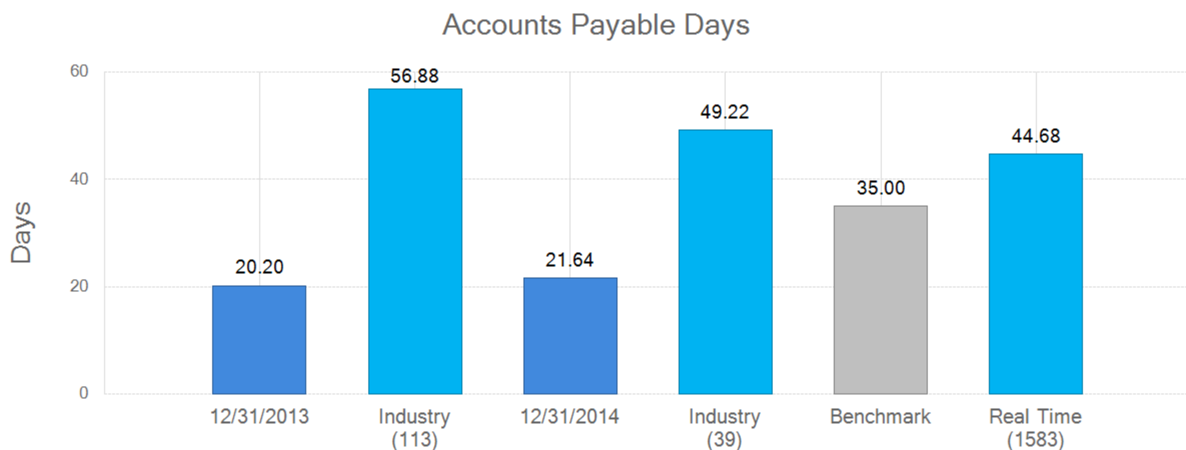
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the 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 66 out of 100

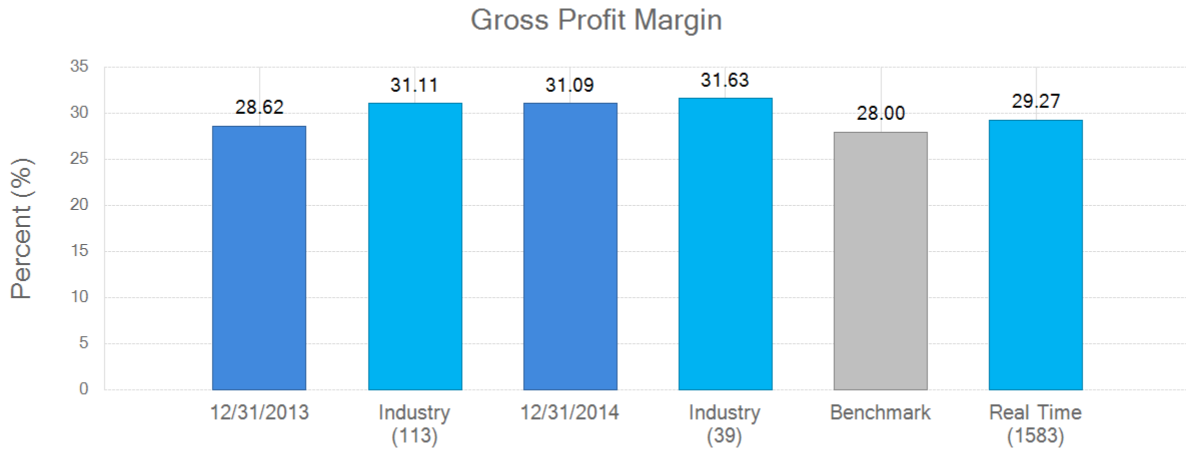
A measure of whether the trends in profit are favorable for the Company.

ABC Company's sales are up this year, and it has also improved its net profit margins and significantly increased its net profits in dollars, which is quite positive. The Company has performed solidly in this area this year. As already mentioned, net profits in dollars have risen significantly by 115.28%; this is at least partially due to the better net margin and the higher sales. It is always positive to see a Company growing (increasing sales) and becoming more efficient (improving its margins) concurrently.

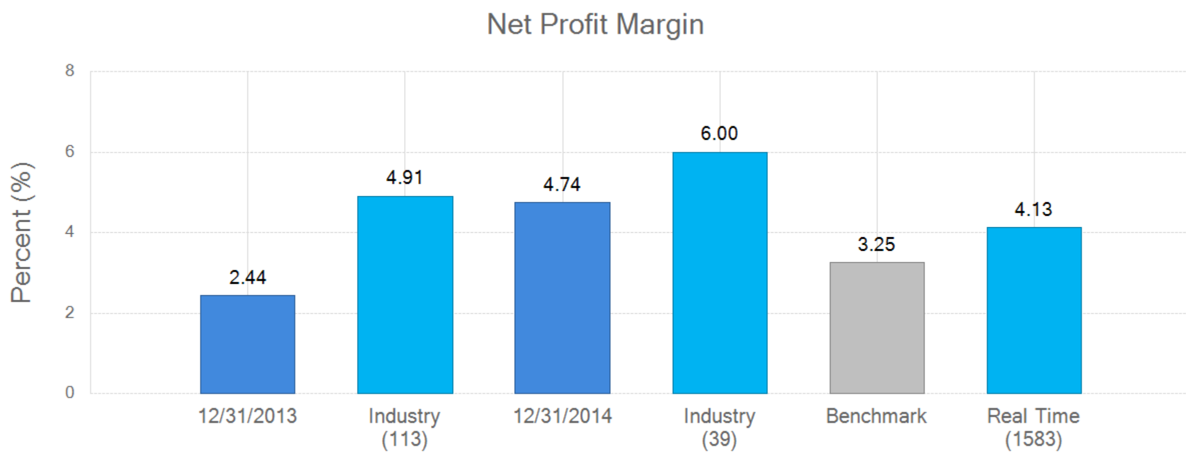
Another positive part in this Company's results is the improvement in gross profit margin of 8.63%. Not only did the Company earn more gross profits in dollars to drive through its operating expenses, but **it also increased its gross margin** (the cents of gross profit earned on every sales dollar). This means that the Company was positioned to take advantage of the key dynamic of operating leverage. Typically, improvements in gross margins tend to create even better improvements in net margins. Higher gross profits can be pushed down the Income Statement to the bottom line.

In short, the Company is doing much better than last year and fairly well generally. The Company should consider what it has done in the business to get these results; clearly, it is working. The company should make an effort to keep moving forward here, because net

margins are currently about average, both generally and relative to what competing firms are earning. This is highlighted in the graph area of the report. If the Company can continue its current trends and keep increasing its sales and improving its net profit margin, it may be able to become a top performer in this industry.



This number indicates the percentage of sales revenue that is not 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).

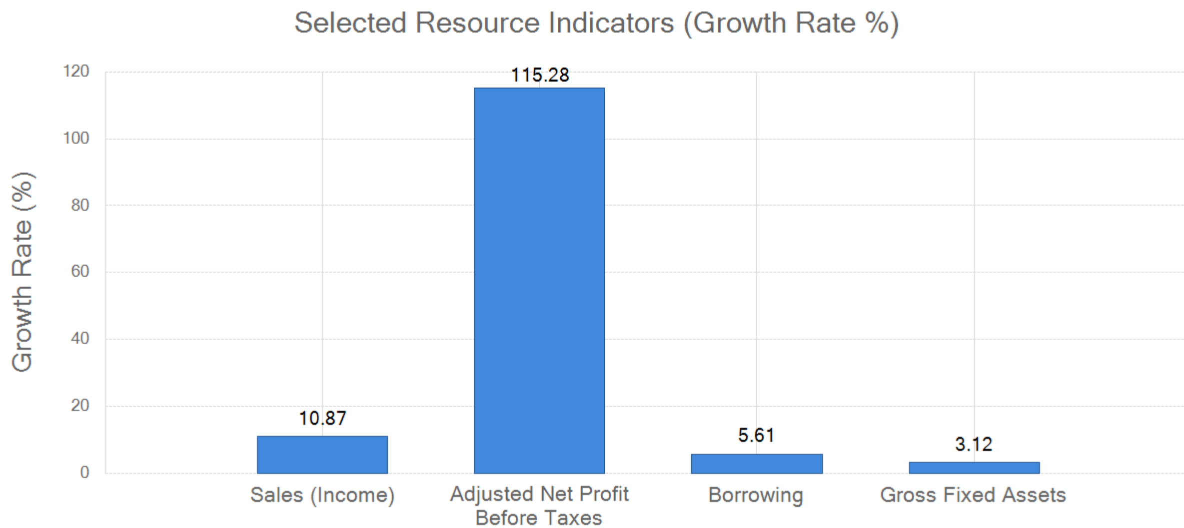


This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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

Sales 79 out of 100

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

Sales increases by themselves do not mean much; companies are typically more interested in net profitability results. Sales changes are also relatively easy to interpret -- sales are either up or down. However, ABC Company's sales results for this year are a bit deeper and more intriguing. The Company has increased sales with about the same amount of fixed assets. Basically, the Company is "driving" more sales through relatively the same level of resources. This is a good dynamic in the sales area that will **potentially** yield higher net profitability in the long run.



This data is based on the two most recent available years.

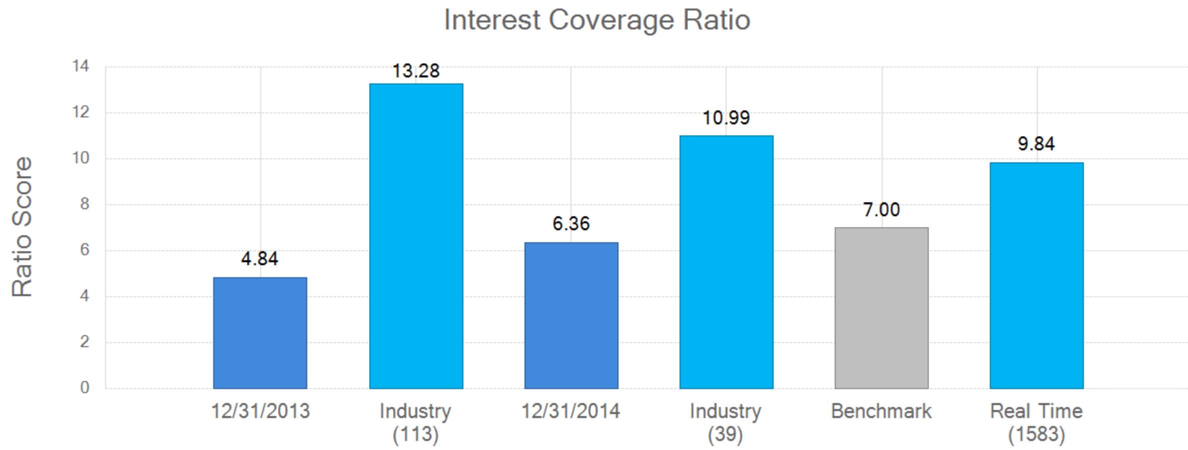
Borrowing 76 out of 100

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

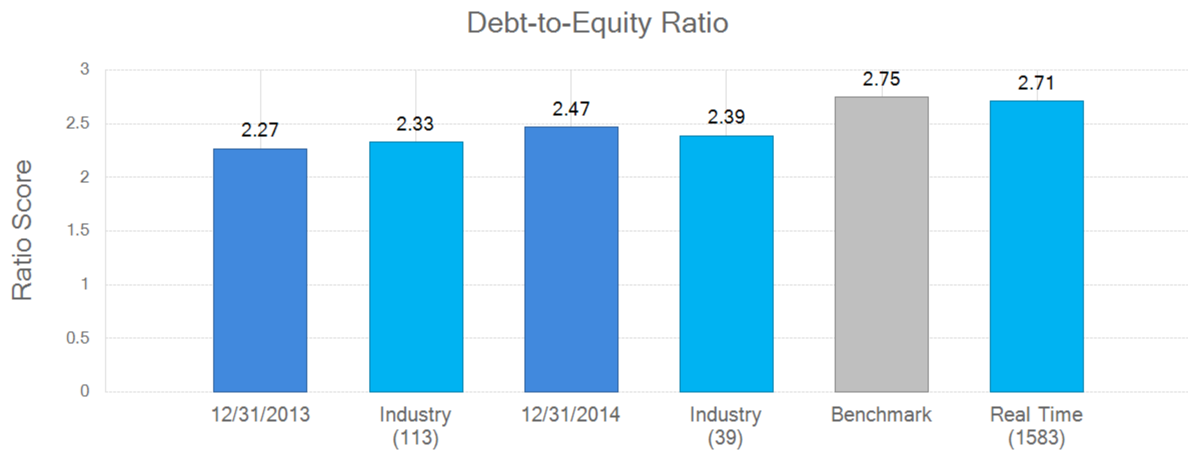
In this case, borrowing stayed about the same, yet net profitability improved significantly. **It actually looks like borrowing may not have contributed to the improved profitability, since debt levels have stayed relatively flat**. On the other hand, there is always the possibility that this year's improvement in profitability was the result of past borrowing activities. The general summary is that it is important to assess the causes of improved profitability to know what resources to lever in the future.

It should also be noted that the Company is generating an average amount of earnings (before interest and non-cash expenses) relative to its cost of debt payments. For example, notice that the Company's interest coverage ratio (EBITDA as compared to debt obligations) is in the 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 equity (its debt to equity ratio is in the norm).

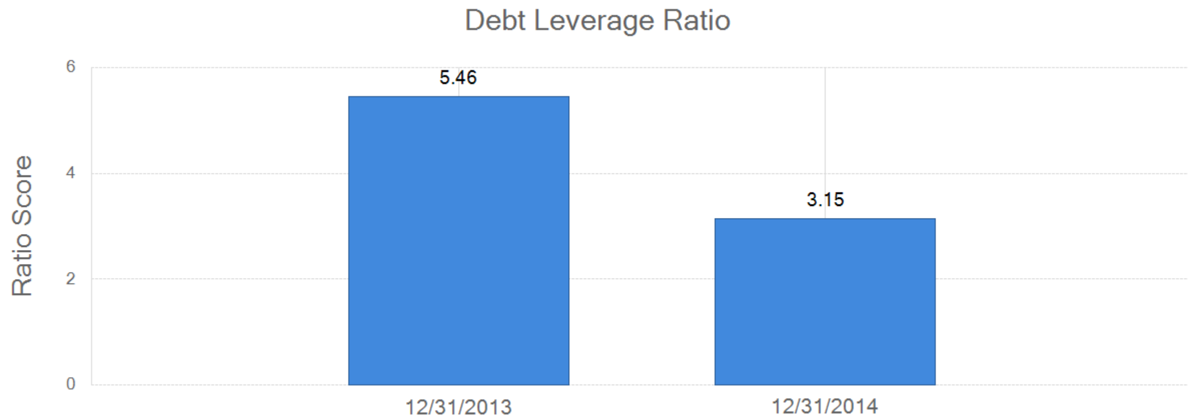
The improved profitability is favorable; now the question is whether or not to borrow additional funds. The answer depends on whether increased debt (or the assets bought with the debt) will improve net profitability in the future. In the final analysis, the company should carefully work through a good cash flow and profitability forecast to determine the best course of action.



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.



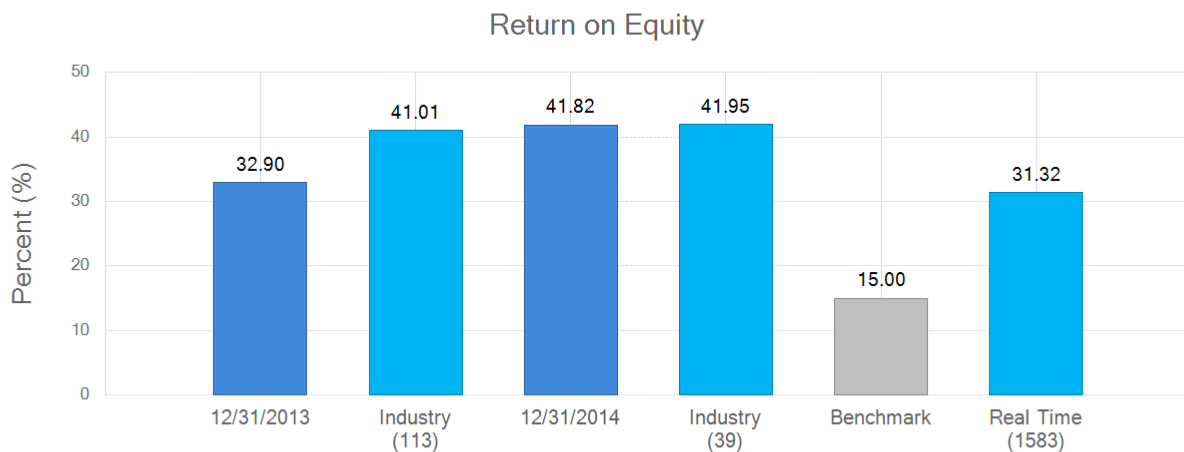
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Assets 90 out of 100

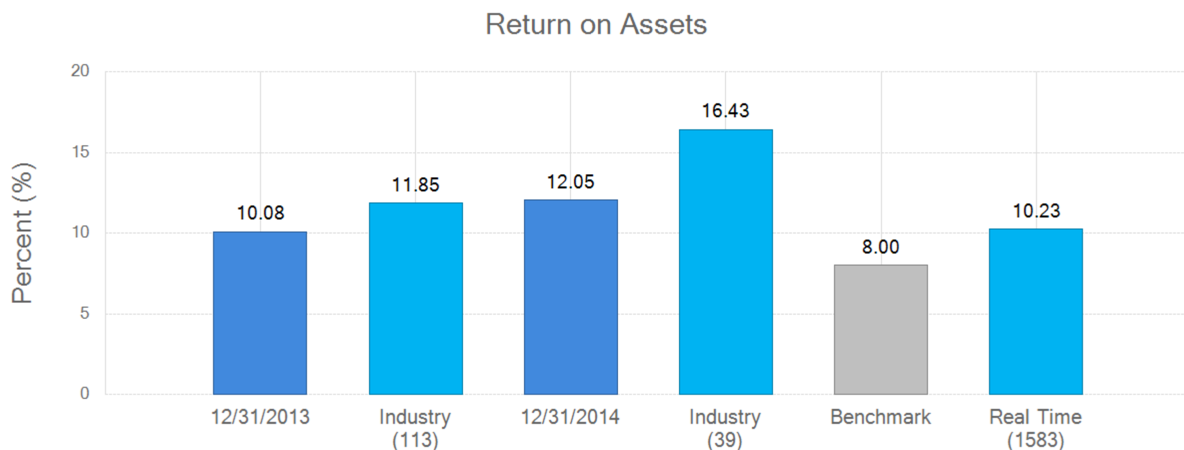
A measure of how effectively the company is utilizing its gross fixed assets.

This year, profitability improved significantly but fixed asset levels stayed relatively flat. This means: 1) profitability was able to improve without adding assets, and 2) ABC 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 year. An improvement in net margins is an indication of improved efficiency as the company has a relatively stable asset base.

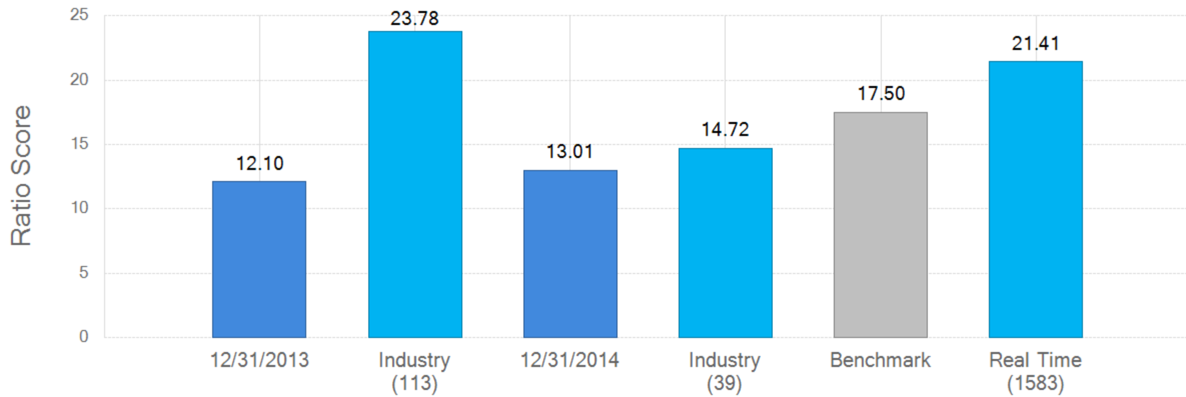
Other positive points include the above average return on assets and return on equity that the company earned this year. If profits are moving positively against fixed assets and the company is generating good returns on those assets, this area will continue to score very well, as has been the case this year.



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.



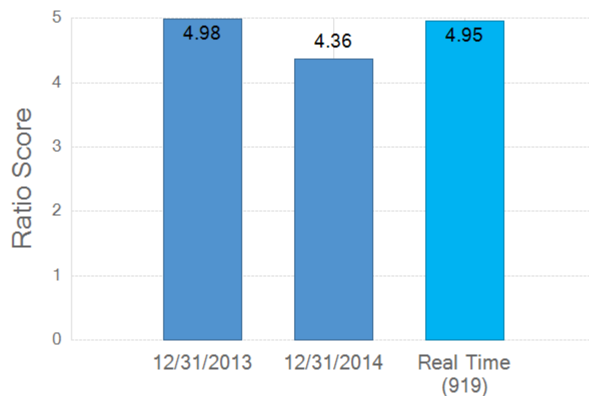
This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize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

A NOTE ON SCORING: Each section of this report (Liquidity, Profits & Profit Margin, etc.) contains a numerical score/grade, which is a rough measure of overall performance in the area. Each grade represents a score from 1 to 100, with 1 being the lowest score and 100 being the highest. Generally, a score above 50 would be a "good" score and a score below 50 would be a "poor" score. The scores are derived by evaluating the company's trends, either positive or negative, over time and by comparing the company to industry averages for different metrics.

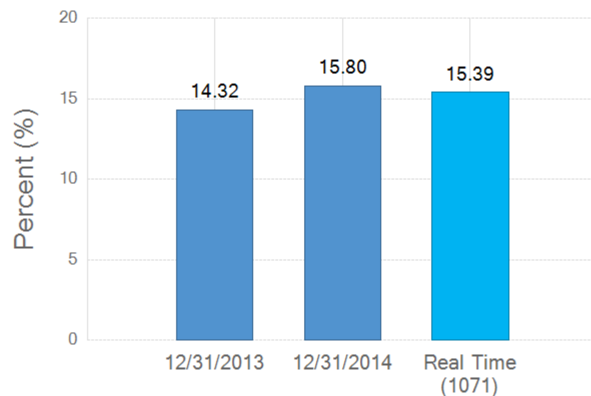
Industry-Specific Performance Ratios

What are the Key Performance Indicators for the business?

This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve operations.



Inventory Turnover = Cost of Goods Sold / Inventory



Inventory to Sales = Inventory / Sales

Industry Scorecard

Financial Indicator	Current Year	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.51	1.50 to 2.60	0.00%
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.			
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	0.52	0.80 to 1.40	-35.00%
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.			
Inventory Days = (Inventory / COGS) * 365	83.72 Days	40.00 to 80.00 Days	-4.65%
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.			
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	29.84 Days	30.00 to 60.00 Days	+0.53%
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.			
Accounts Payable Days = (Accounts Payable / COGS) * 365	21.64 Days	20.00 to 50.00 Days	0.00%
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.			
Gross Profit Margin = Gross Profit / Sales	31.09%	20.00% to 36.00%	0.00%
Explanation: This number indicates the percentage of sales revenue that is not 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).			
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	4.74%	0.50% to 6.00%	0.00%
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.			
Interest Coverage Ratio = EBITDA / Interest Expense	6.36	4.00 to 10.00	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.			
Debt-to-Equity Ratio = Total Liabilities / Total Equity	2.47	1.50 to 4.00	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.			
Debt Leverage Ratio = Total Liabilities / EBITDA	3.15	--	--
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	41.82%	8.00% to 22.00%	+90.09%

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.

Return on Assets = Net Income / Total Assets	12.05%	6.00% to 10.00%	+20.50%

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.

Fixed Asset Turnover = Sales / Gross Fixed Assets	13.01	10.00 to 25.00	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 ratio, the more effective the company's investments in Net Property, Plant, and Equipment are.