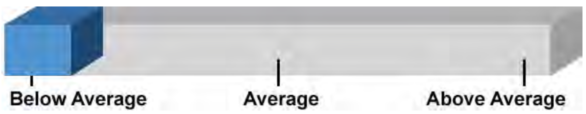
FINANCIAL REPORT

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

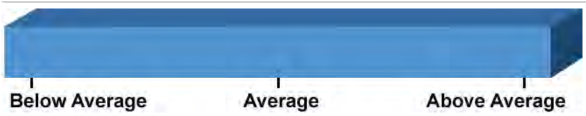
Snapshot of: **IT Consulting Sample**
Industry: 541512 - Computer Systems Design Services
Revenue: $1M - $10M
Periods: 12 months against the same 12 months from the previous year

Financial Score for IT Consulting Sample

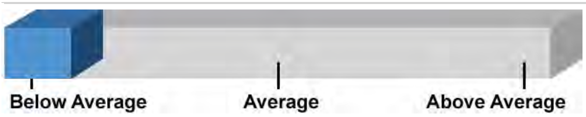


LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.

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

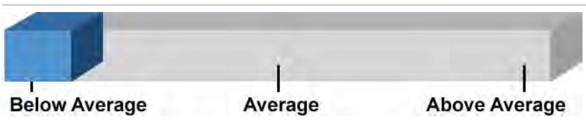


SALES -
A measure of how sales are growing and whether the sales are satisfactory for the company.



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.

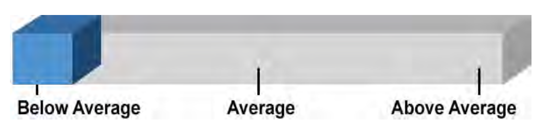


EMPLOYEES -
A measure of how effectively the company is hiring and managing its employees.

Financial Analysis for IT Consulting Sample

LIQUIDITY

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



Operating Cash Flow Results

Operating cash flow is strong and has increased relative to sales since last period. This is a good result, and also a needed one, since overall liquidity seems weak currently. The company seems to be doing a good job of managing working capital accounts. It may still be helpful, however, to examine the Statement of Cash Flows to see if adjustments can be made to free up additional cash.

General Liquidity Conditions

Unfortunately, higher sales volume and lower liquidity and profit performance are not as atypical as one might think. The company needs to consider the results carefully here. It is often the case that volume increases can squeeze liquidity from a firm. Even though sales have increased from last period, the company's liquidity position has actually deteriorated in multiple areas. It will be noted in the next section that net income margin has decreased quite a bit as well, which is not good. Margins affect both profitability **and** liquidity.

The firm now has less cash **and** total current assets relative to short-term financial obligations than it did last period. The numbers look fairly weak. In short, the company's liquidity position seems low and may need to improve. Otherwise, there may be several negative issues to address: the company may have a difficult time paying the bills, and management may also have to spend too much time on just managing cash flow. Finally, the company may not have the cash available to deal with an unforeseen negative occurrence. While these models are **not** predictive, the company's general position can be accurately assessed.

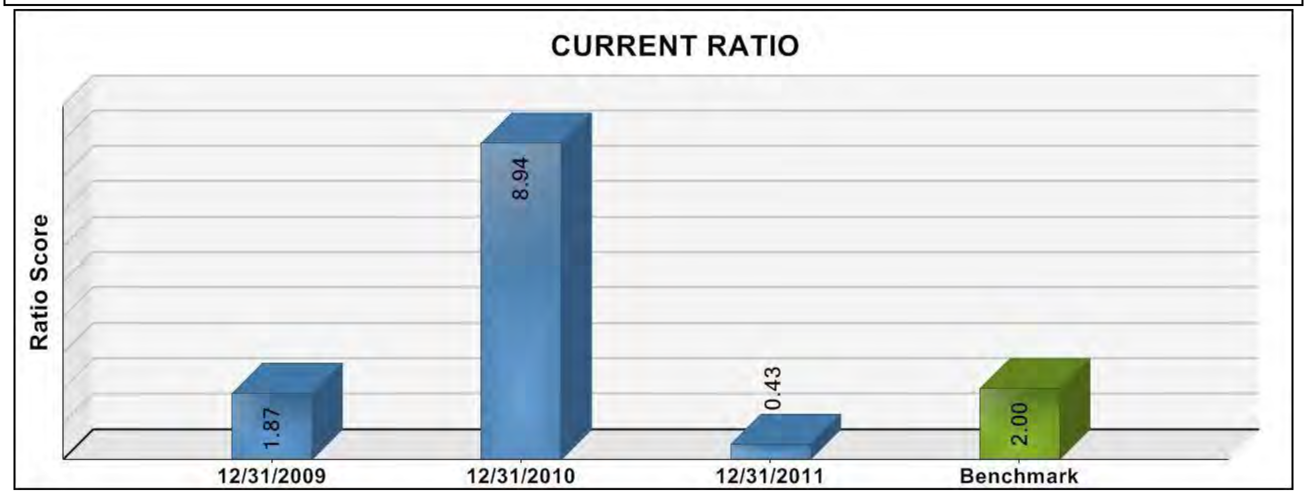
Right now, although the company is not doing a great job with its overall liquidity, its performance in certain components of this area is actually good. Inventory days, accounts receivable days, and accounts payable days are all low this period, especially given the industry in which this company currently operates. Managers may have an ability to use trade credit (extending the company's payment period) to boost cash flow, which can be especially important when overall liquidity is soft.

Tips For Improvement

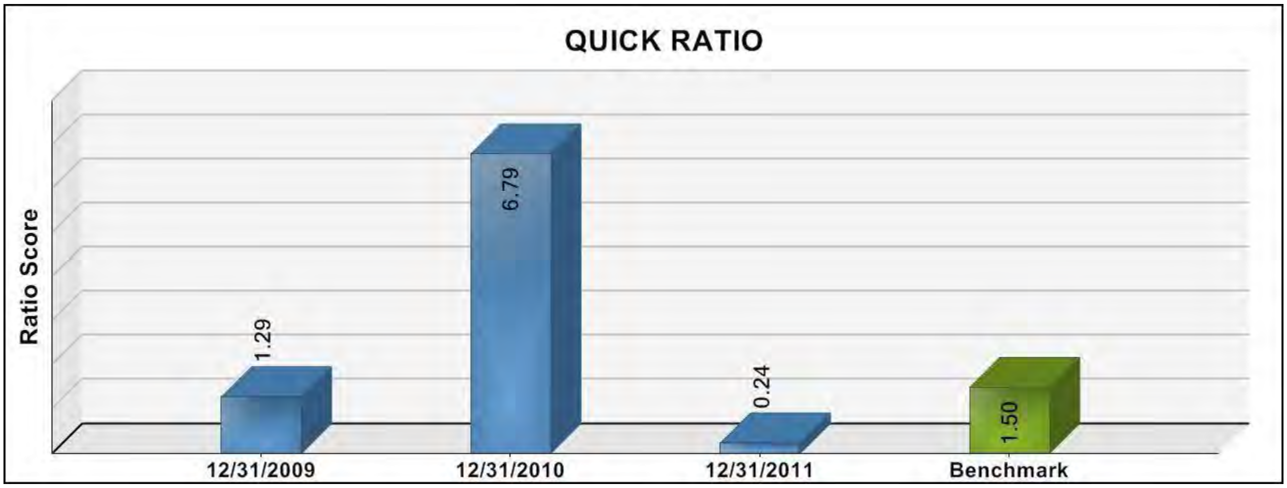
Here are some ideas/actions that managers might consider in managing liquidity:

- Rent rather than buy resources where appropriate; this strategy can save the business money.
- If a business is having difficulty meeting obligations, term out some short-term debt if necessary and possible by moving some short-term debt down the Balance Sheet to long-term debt. This usually requires refinancing from the bank.
- Sell any unnecessary/unproductive assets the business may have to increase cash. These are assets that are not contributing sufficiently to the generation of income and cash flow.
- 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 to help predict/prepare for potential future cash shortfalls.

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.



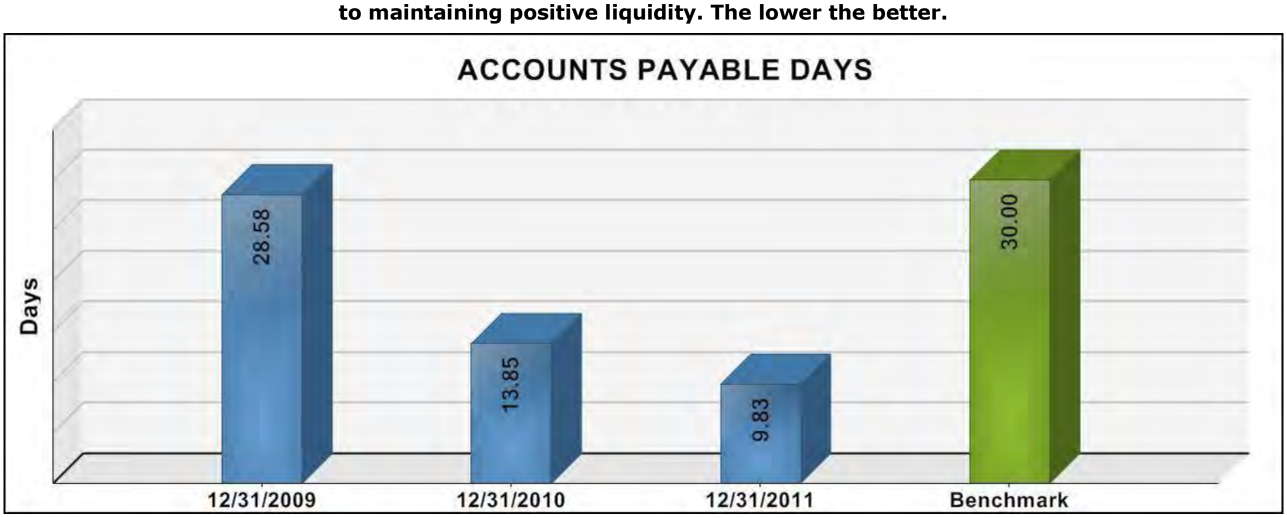
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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

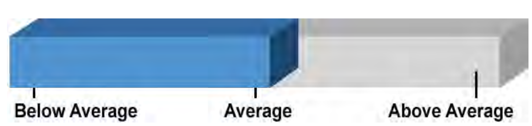
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



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.



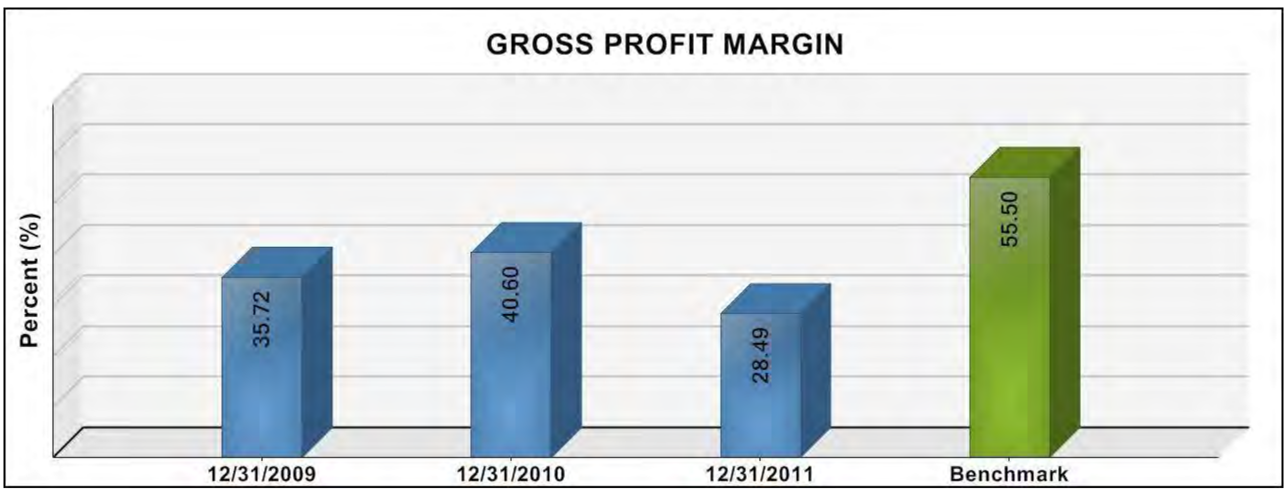
The company's managers will want to pay attention to the fact that the company's gross and net profit margins both fell this period. In fact, despite much higher sales, both net profits (in dollars) and gross profits (in dollars) fell. Although the company's net profit margin is still relatively healthy on an overall level, the company's net and gross profitability areas need attention at this point.

The company's gross profit margin fell because the company is spending significantly more money on direct costs this period. It is costing the company a higher percentage of each sales dollar just to cover costs of sales; even though the company is earning much more sales revenue, its gross profit dollars have fallen because costs of sales have risen by so much. Managers will want to remedy this situation as soon as possible; it does a company no good to generate higher sales if those dollars and then some are being eaten away by direct costs. Additionally, having lower gross profits has implications for a firm's net profitability as well, because the company now has fewer dollars available to pay for operating expenses.

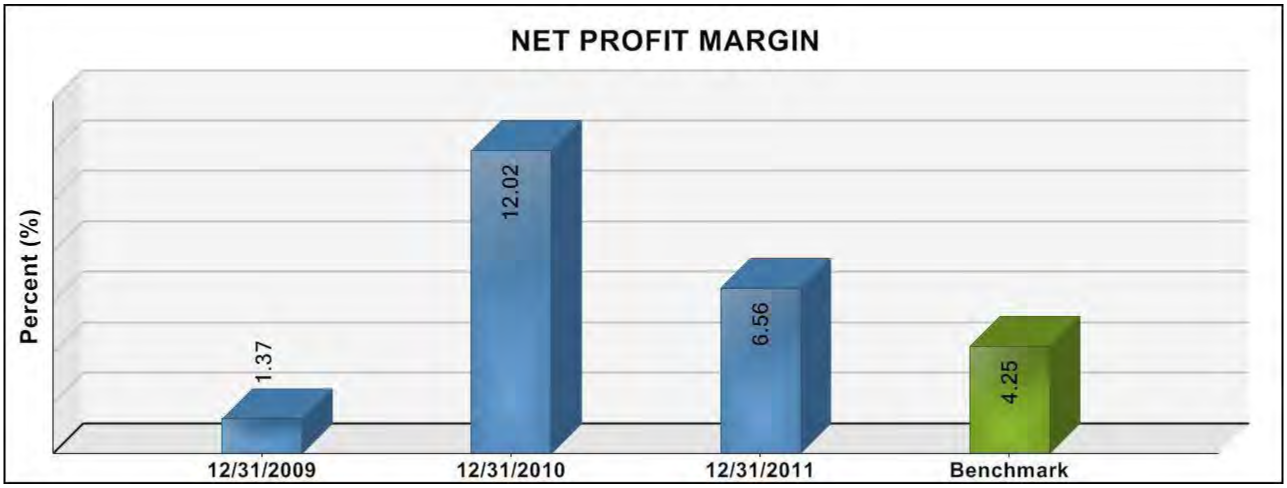
This being said, the company's net profit margin and net profit dollars both declined this period. Managers will want to work on controlling and reducing the company's operating costs, because additional operating costs added this period contributed to the decline in net margins.

Tips For Improvement
The following ideas to improve profitability might be useful and can be thought-through by managers:

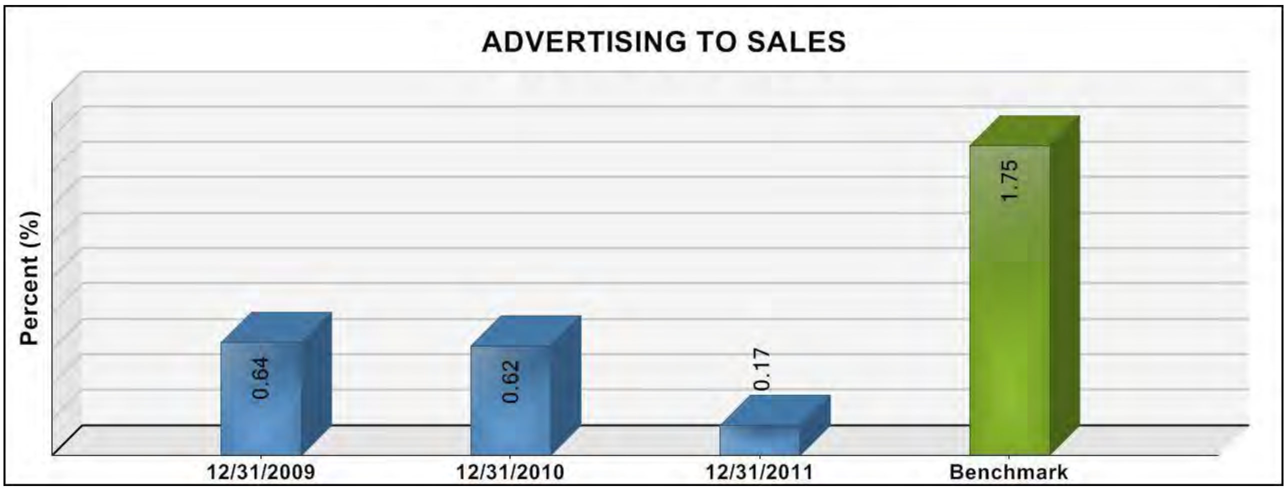
- Reward the employees who perform best based on new customer leads, profitability per customer, and customer satisfaction.
- Obtain an annual business check-up. Meet with an accountant or banker to review financial statements and get advice on how to improve performance.
- Enroll the business in an insurance program that provides appropriate coverage at a good cost. Meet with insurance agents to determine ways to reduce costs by evaluating coverage and deductibles.
- Increase prices selectively where possible. Done effectively, this can boost cash flow and profitability.



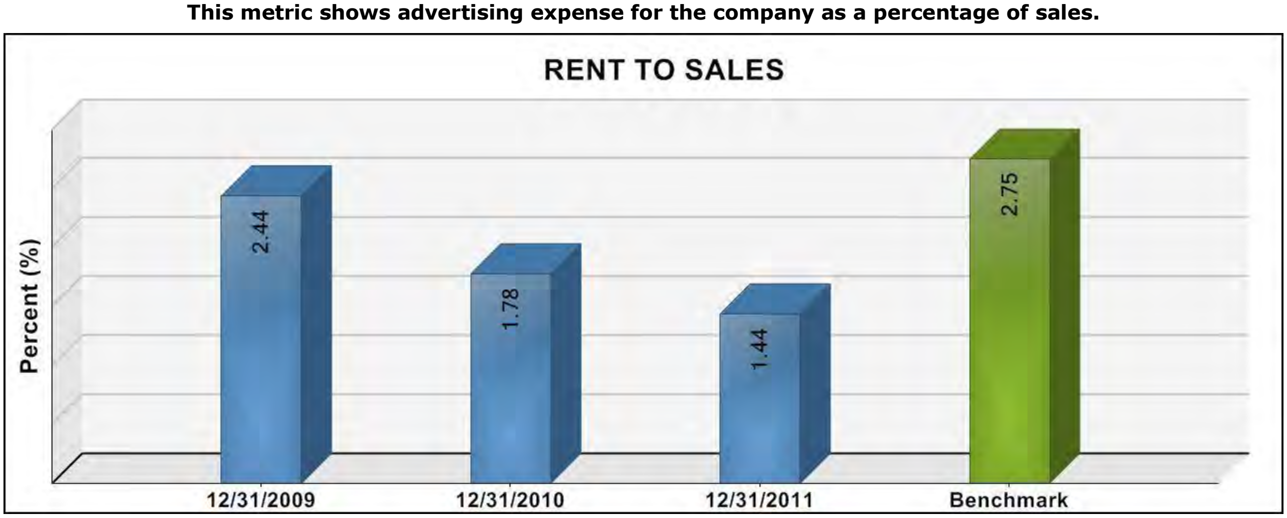
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).



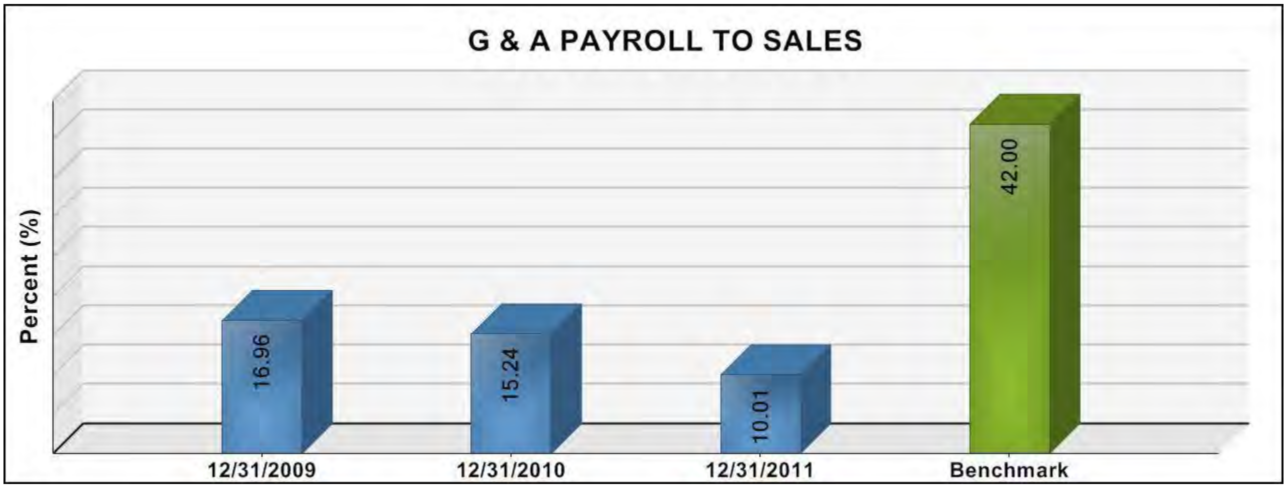
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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



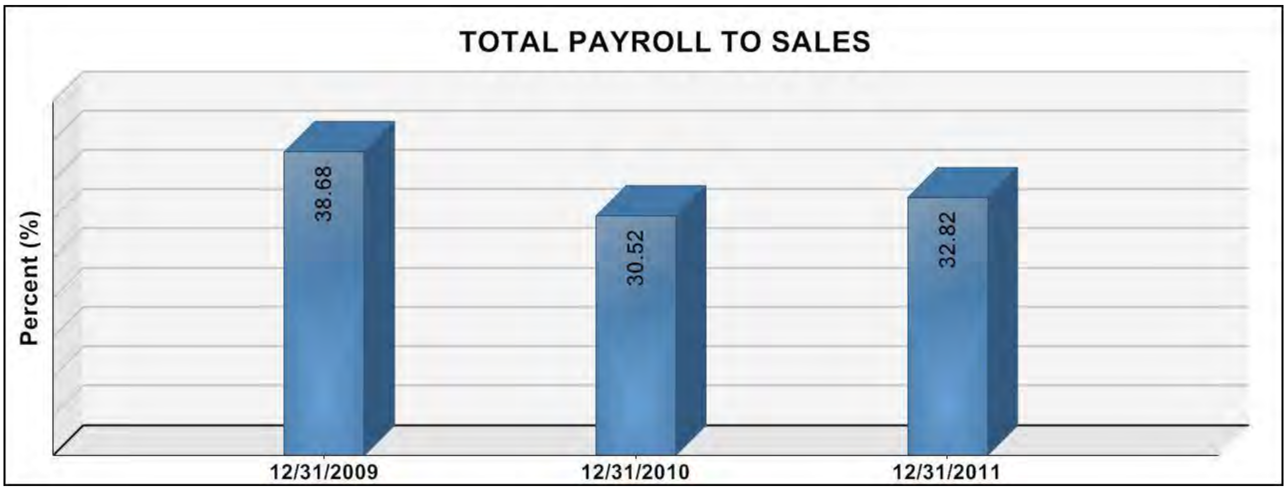
This metric shows advertising expense for the company as a percentage of sales.



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.



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

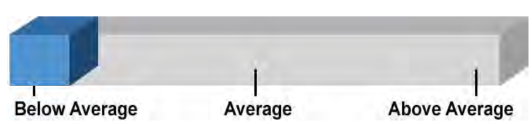
SALES

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

Sales have increased substantially. The company has strong results in the sales area. It looks like the company has also bought a substantial amount of fixed assets and hired additional people. Even with additional employees, the company is generating more **revenue per employee**, a long run key performance indicator (KPI) in this sector/industry. However, this report does not draw too many conclusions in the Sales section because **the real goal of the company is increasing profitability** over time, not just increasing sales. Sales increases, in and of themselves, do not indicate that much.

BORROWING

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

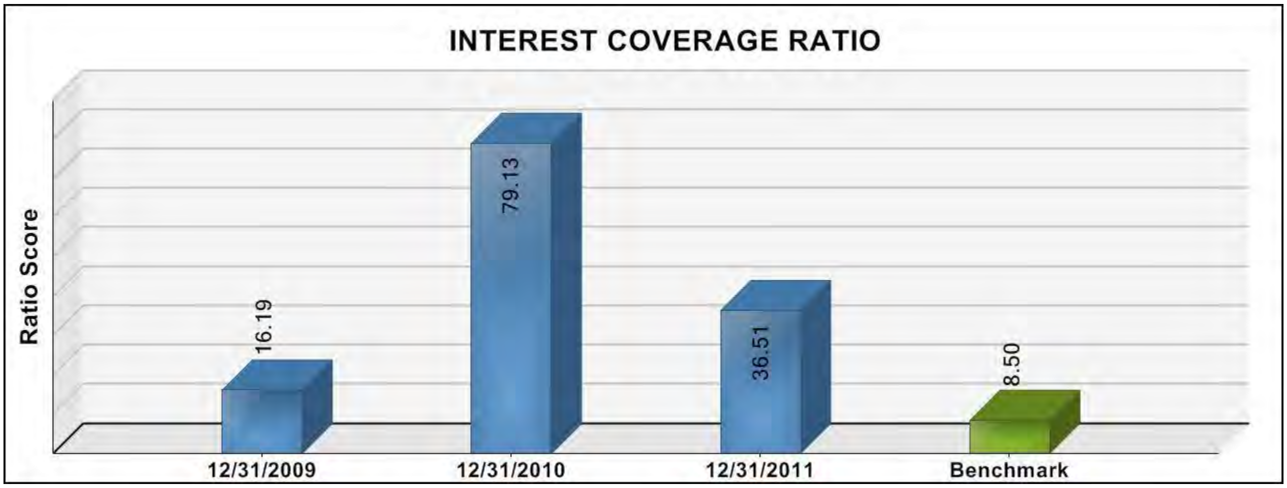


It is very difficult to establish cause and effect relationships. Clearly, total debt rose significantly this period. At the same time, net profitability (in dollars) fell. The bottom line is that the company added significant debt, which has not helped leverage more success in the form of profitability, at least as of yet. This is not a favorable trend, especially if it continues in the future. Until profitability improves, it may be best to be rather cautious about adding more debt to the books. This analysis holds for both short-term and long-term debt. Even though short-term debt usually carries less risk, all borrowing should lever profitability over time.

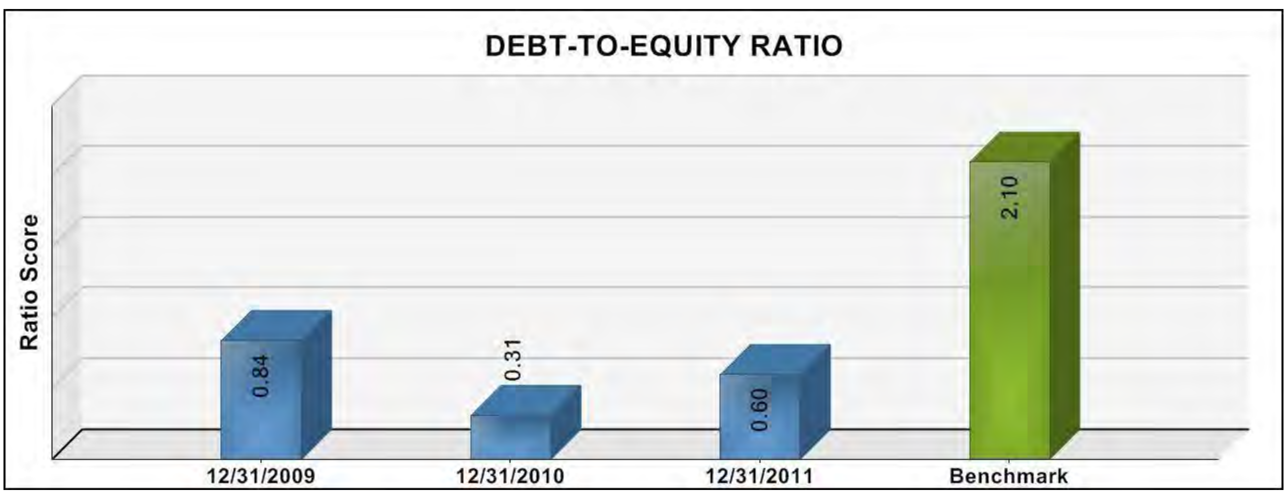
Another disturbing event is that net margins fell, as mentioned previously. Over the short term, it is acceptable to lose a little efficiency while adding debt. However, over the long term, even debt should improve profitability and profit margins.

There are some conflicting analytical points here. For example, the company's trend in this area is poor. Yet, the firm seems to be generating ample earnings (before interest and non-cash expenses) to meet debt obligations. What conclusions can be reached? Perhaps the company is driving enough earnings relative to cost of debt expenses because its debt load is relatively low (notice that the debt-to-equity of the company is low, even as compared to the competition). It is difficult to go far in the analysis here, so one might lean on the fact that the overall trend is not favorable.

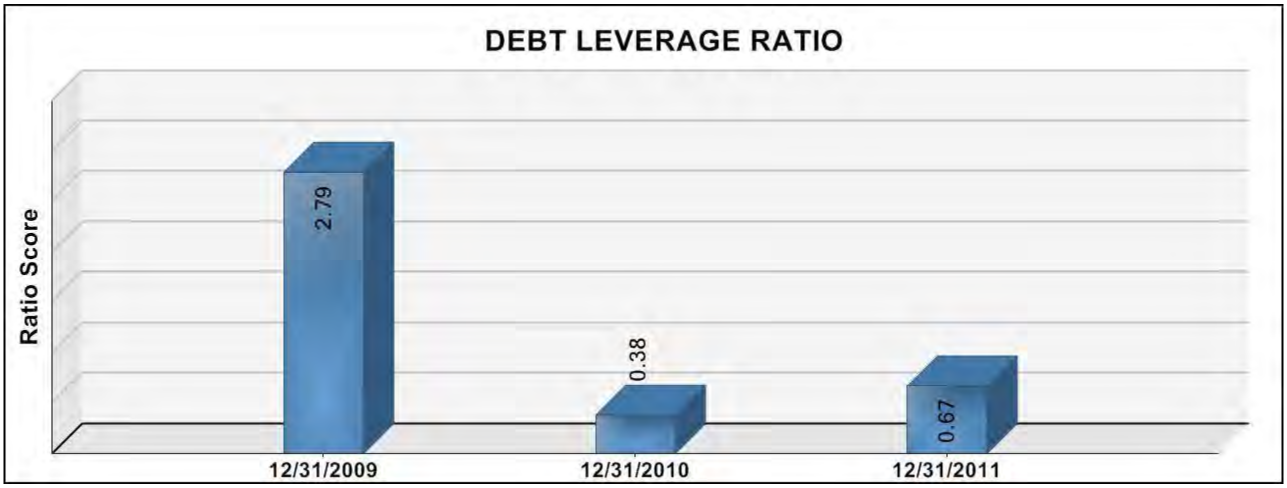
There is always room for improvement in overall debt management strategies. The company should check to make sure that it is in compliance with its loan agreements -- the loan "covenants" regarding financial benchmarks that need to be met. Another action to take is good income and cash forecasting which shows how profitability and cash will change with different levels of debt.



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).

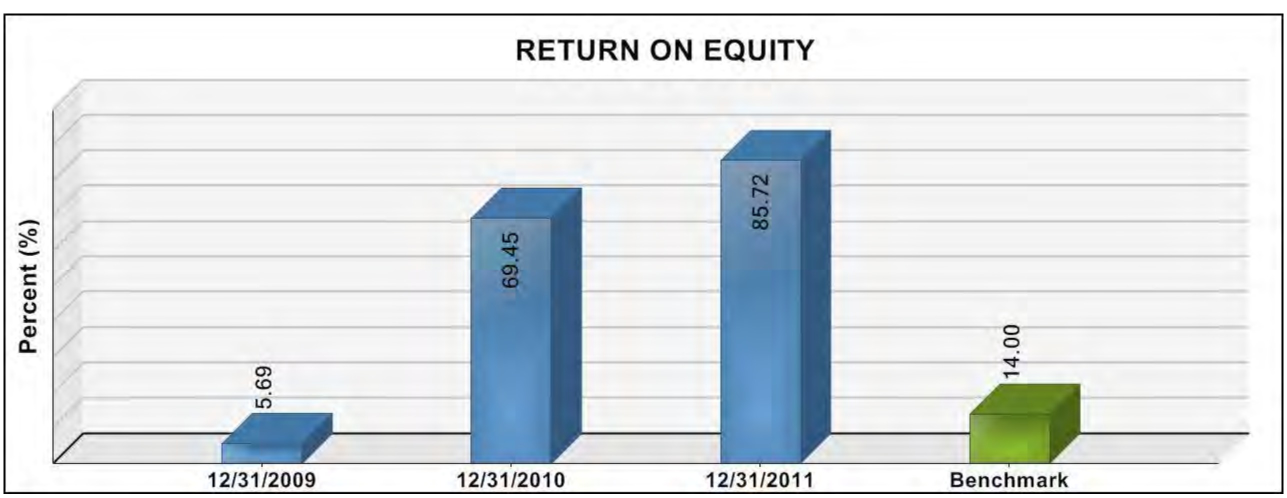
ASSETS

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

Because fixed assets do not appear on the Income Statement, companies sometimes forget to consider them in terms of how they affect profitability. Nevertheless, the Income Statement is a symptom, not a cause. Increasing fixed assets can actually help a company earn better profitability if it is done in the correct manner.

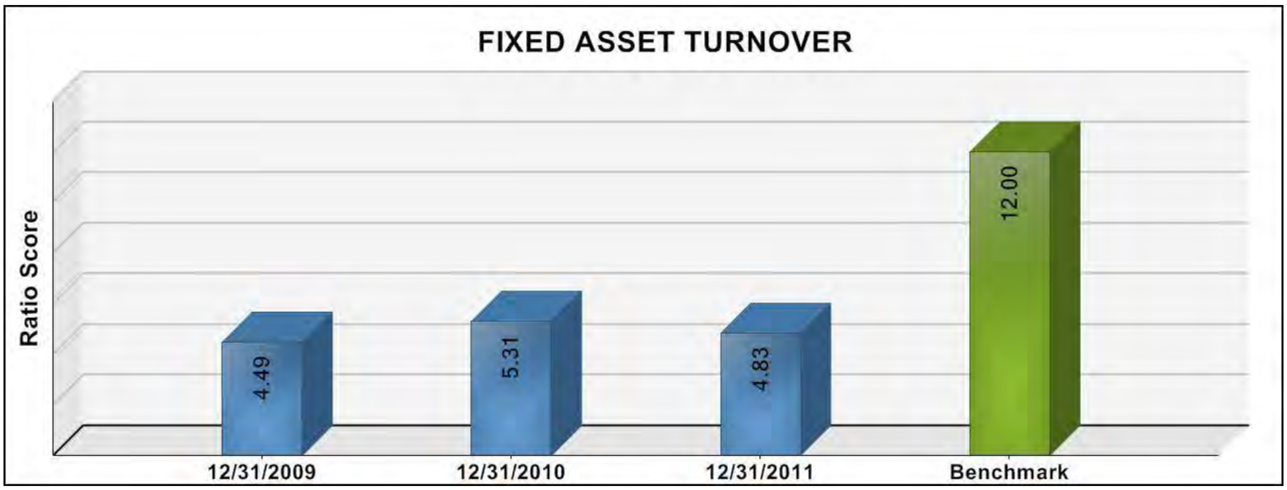
In this case, it looks like the assets bought may not be performing optimally, at least as of yet. This is because buying them has not improved profitability. Indeed, profitability is down from last period. It is important to make sure that all asset purchases will help improve profitability, at least over the long run. Techniques such as performing a return on investment analysis before making a purchase decision can help assure this. This area merits particular attention at this time given that net profit margins and overall liquidity are down, too. Although it is possible that the assets recently purchased need some time to start operating at their maximum levels, managers may want to be particularly careful about making additional asset purchases at this time.

Notice that the company generated a relatively strong return on assets and equity this period. This is a positive result for both investors/owners and creditors of the company. Assets generally represent a cost to the company that is expected to reap future benefits, so it is good to see the company earning strong profitability relative to its assets.



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.

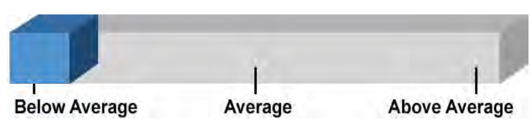
This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher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

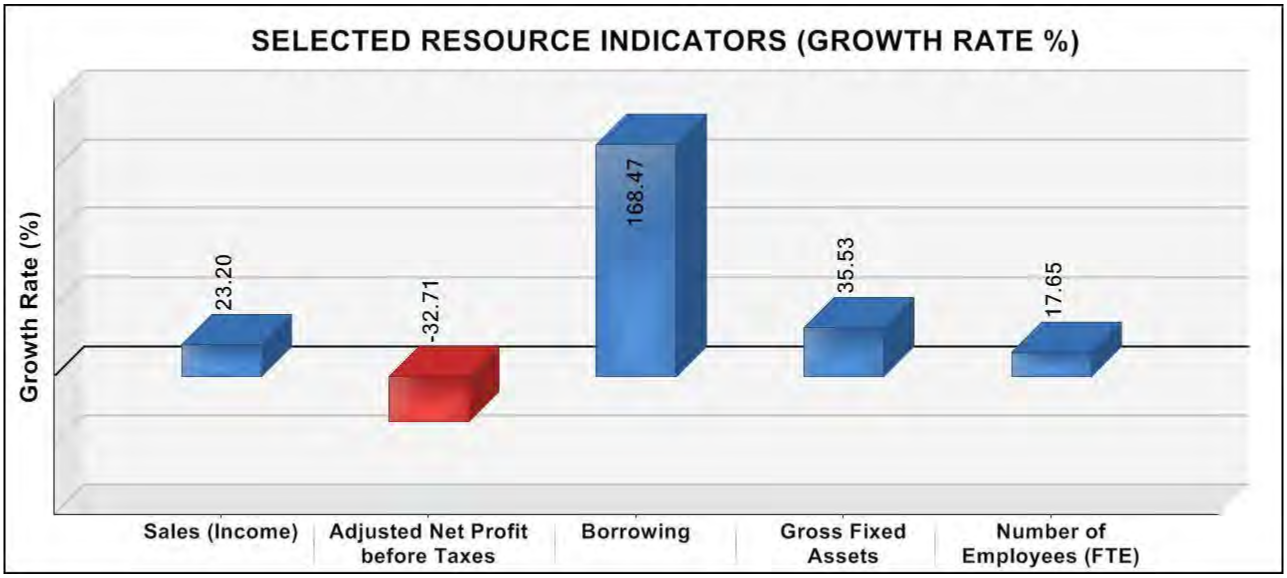


This company's employee management results seem a bit weak. The company has hired more people, but net profitability has fallen from last period. Ideally, companies want to see hiring result in improved profitability. For this company, this did not happen -- in fact, the reverse occurred.

Unless this is a deliberate plan to add employees for long run profitability growth, managers **may** want to rethink future hiring until the company can improve net profitability. This is especially true because the company added a significant amount of fixed assets and may need to give those assets time to start improving profitability as well.

On a more general note, while the methods used here are based on traditional financial analysis, financial analysis is limited because it looks backward, not forward. Good hiring decisions are based upon an analysis of future conditions, not what has happened in the past. This is a limitation of this report, which should be noted by the reader.

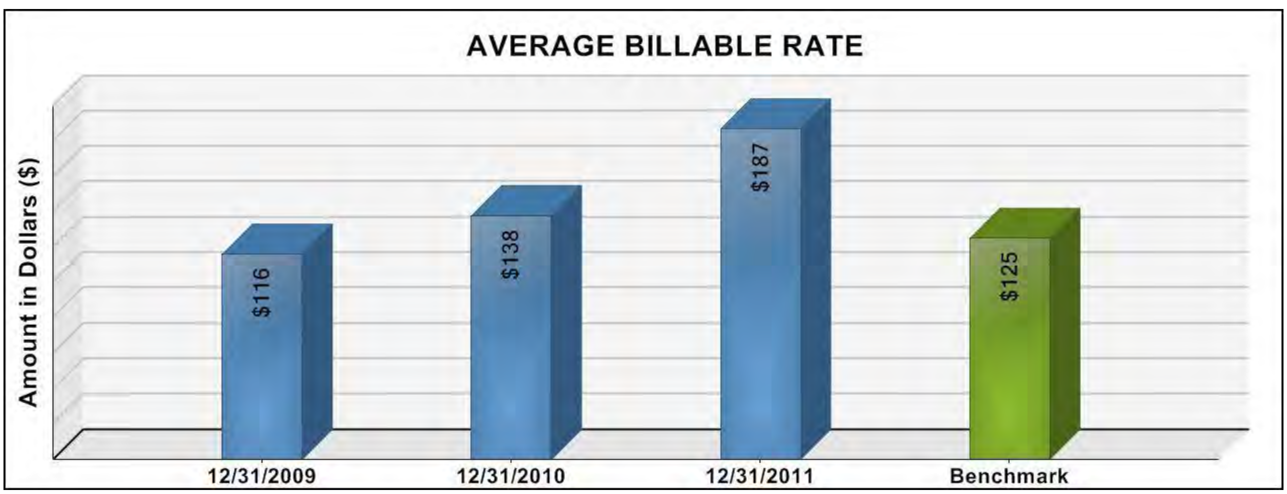
"I criticize by creation -- not by finding fault." -- Cicero



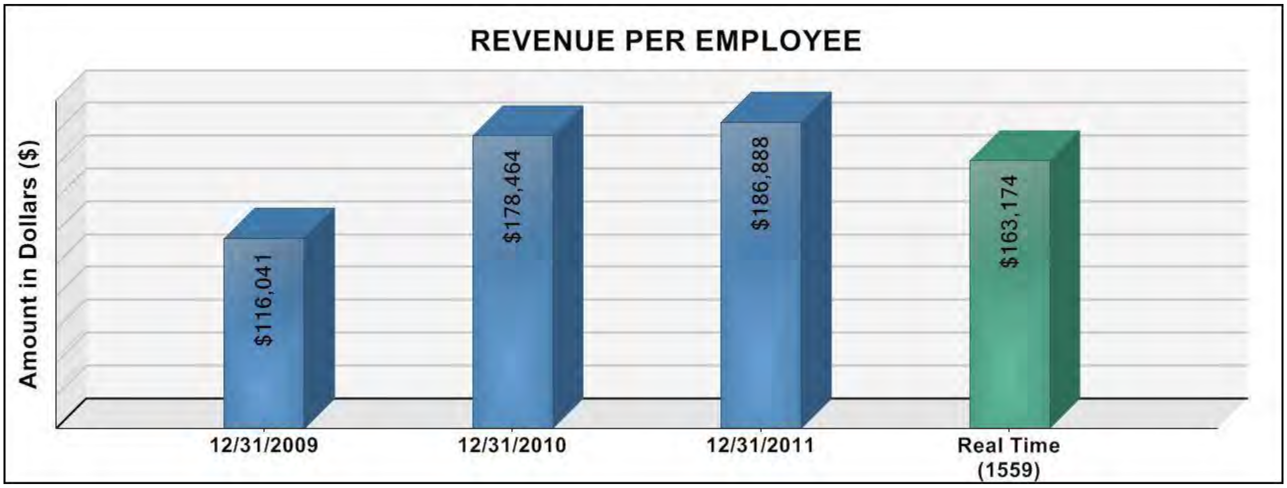
INDUSTRY-SPECIFIC PERFORMANCE RATIOS

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. Track these KPIs over time and compare them to the industry benchmarks to identify areas where the business might be able to improve operations.



Average Billable Rate = Sales / Working Hours Billed



Revenue Per Employee = Sales / Employees

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	0.43	1.50 to 2.50	-71.33%
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	0.24	1.00 to 2.00	-76.00%
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	3.19 Days	5.00 to 20.00 Days	+36.20%
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	3.08 Days	30.00 to 60.00 Days	+89.73%
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	9.83 Days	15.00 to 45.00 Days	+34.47%
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	28.49%	49.00% to 62.00%	-41.86%
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	6.56%	1.50% to 7.00%	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.			
Advertising to Sales = Advertising / Sales	0.17%	0.50% to 3.00%	+66.00%
Explanation: This metric shows advertising expense for the company as a percentage of sales.			
Rent to Sales = Rent / Sales	1.44%	1.00% to 4.50%	0.00%
Explanation: This metric shows rent expense for the company as a percentage of sales.			
G & A Payroll to Sales = G & A Payroll Expense / Sales	10.01%	35.00% to 49.00%	+71.40%

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

Total Payroll to Sales = (Direct Labor + G & A Payroll Expense) / Sales	32.82%	N/A	N/A

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

Interest Coverage Ratio = EBITDA / Interest Expense	36.51	5.00 to 12.00	+204.25%

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	0.60	1.20 to 3.00	+50.00%

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	0.67	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	85.72%	8.00% to 20.00%	+328.60%

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	63.65%	6.00% to 12.00%	+430.42%

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	4.83	6.00 to 18.00	-19.50%

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. 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.).