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Sample Operational and Financial Analysis Report

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.

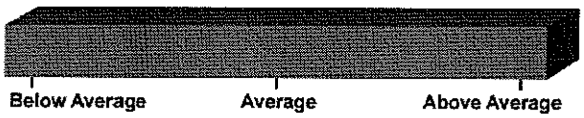
Snapshot of: **Sample Auto Repair Business**

Industry: 81112 - Automotive Body, Paint, Interior, and Glass Repair

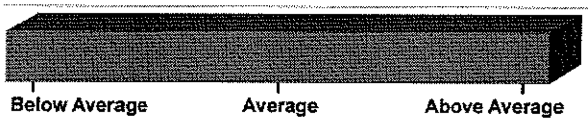
Revenue: Less than $1M

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

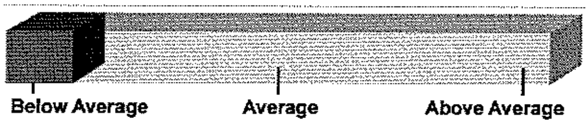
Financial Score for Sample Auto Repair Business



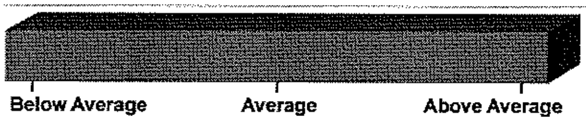
LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.



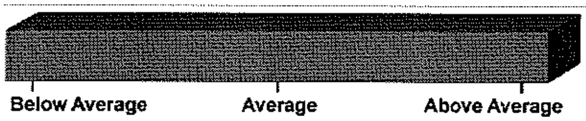
PROFITS & PROFIT MARGIN -
A measure of whether the trends in profit are favorable for the company.



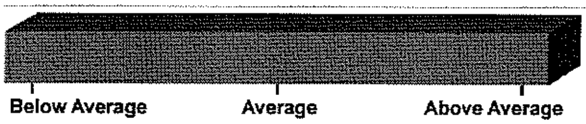
SALES -
A measure of how sales are growing and whether the sales are satisfactory for the company.



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.

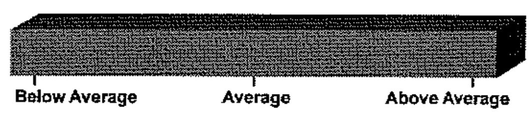


EMPLOYEES -
A measure of how effectively the company is hiring and managing its employees.

Financial Analysis for Sample Auto Repair Business

LIQUIDITY

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



One of the difficulties with liquidity is that managers often do not think about it until there is a problem. The challenge is to monitor liquidity constantly even though it's a basic concept -- it simply measures a company's overall cash position.

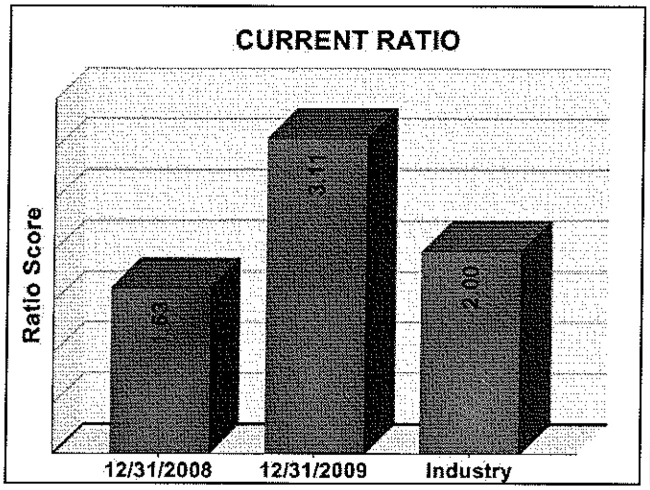
Fortunately, it looks like this company is in a good liquidity position. Despite the fact that sales are down from last period, the company's liquidity position is very good. The strong increase in profits did not hurt this position. Furthermore, the company's liquidity position is even strong when looking at it by using multiple ratios and techniques. This means that the company has solid strength in its base, which is excellent. One solid way to keep building liquidity in the future is to keep moving up profits.

Tips For Improvement
Liquidity is a challenge that is never solved. Managers might possibly consider the following actions to maintain or improve conditions over time:

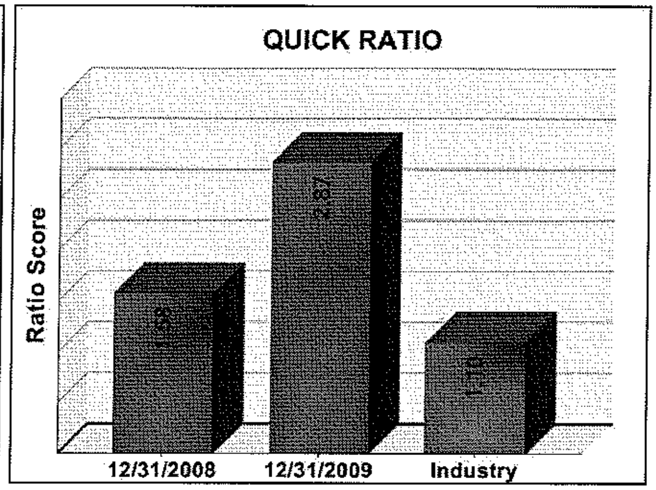
- Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process which can significantly improve the firm's cash position.
- Monitor invoicing procedures to help ensure correctness. Nothing will delay payment more than sending

out an incorrect invoice. This will extend Accounts Receivable and hurt 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. This can help predict/prepare for potential cash shortfalls that may occur in the future.
- Accept multiple forms of payment, such as credit and debit cards, to help cut down on the number of denied payments (bad checks). This helps to ensure that a business is collecting all of the money it is owed.

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.



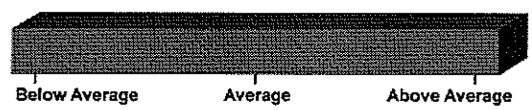
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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

PROFITS & PROFIT MARGIN

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



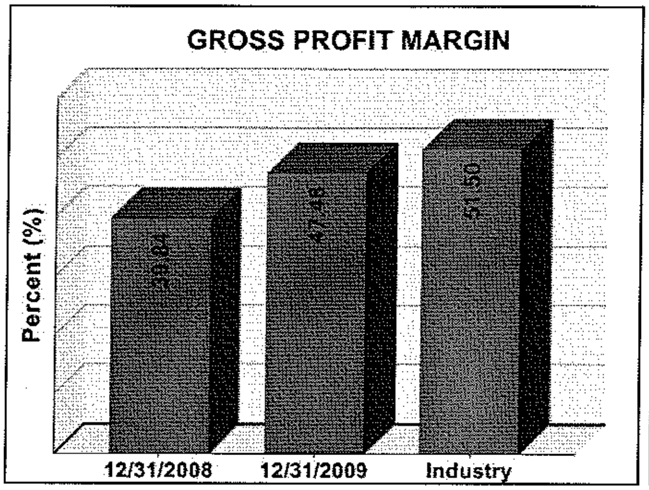
The company has achieved good results in this area of the report. Both gross profit margins and net profit margins have increased from last period. It seems that the company is managing direct costs and operating expenses effectively. It was important to manage costs better, because sales fell from last period, which resulted in unchanged gross profits (in dollars). The company made up for lower sales with very good expense management. Essentially, managers increased net profits in this case by cutting some costs.

From an overall perspective, **net profit margins are above average compared to other companies in this industry**. In fact, **net profits are strong overall**. The company is simply doing well in this section of the report. Achieving and then keeping a healthy net profit level is fundamental to all other financial areas. No profit statistic is more important.

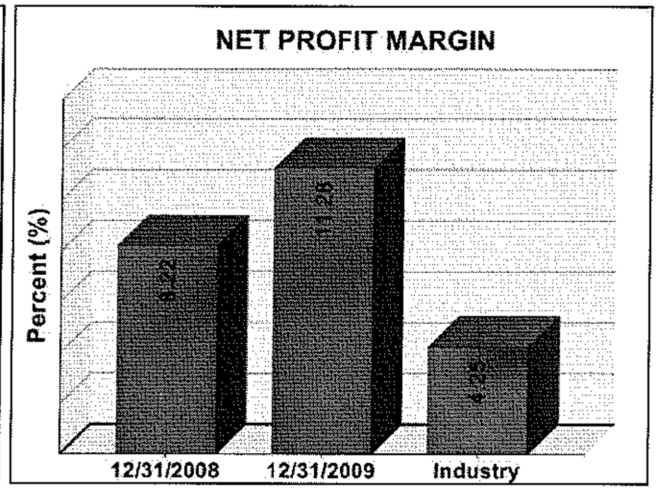
Managers may now want to focus on "pushing" sales higher while maintaining the better gross and net profit margins. Managers might be able to invest money in marketing efforts to boost revenues, since the company seems to have good general profit health. The advantage to having better margins is to have the flexibility to invest money back into the growth of the company. In short, managers may want to leverage the high net profits to boost performance in every other area.

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:

- Require employees (particularly technicians) to complete a workplace safety program. This will help you reduce the number of claims, thus reducing insurance costs.
- Use updated diagnostic tools to assess maintenance problems. This will enable you to decrease time wasted on wrong diagnoses and increase the number of vehicles you can service in a given period.
- Create and maintain a reputation for honesty. In the automobile maintenance industry, customers often appreciate feeling as though they can trust those working on their cars. Many times, this is a leading factor in return business from current customers.
- Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness.



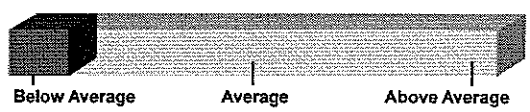
This number indicates the percentage of sales revenue that is paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the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

SALES

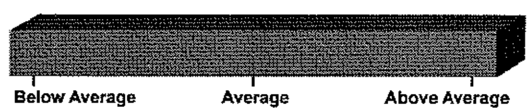
A measure of how sales are growing and whether the sales are satisfactory for the company.



Sales have fallen, which has already been mentioned. As discussed in the Profitability section, sales changes in themselves are typically not vital analytical points. Profitability trends are more important. Still, the clear goal over time is to increase sales since the cost of doing business almost always goes up over the long run. Notice, too, that the fixed asset base has stayed relatively flat. This dynamic could harm profitability over time if sales continue to decline.

BORROWING

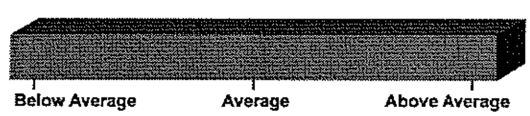
A measure of how responsibly the company is borrowing and how effectively it is managing debt.



In this case, the company **generated better profitability with less debt on the books**. An additional positive point is that profit margins have improved, too. It seems like this could be a good time to build the business, gain more efficiencies, try to improve overall liquidity, and reinvest any savings in long-term profitability generators such as advertising, employee benefits, etc. Over time, generating better profitability on a lower debt level is a good way to lower costs in the company and boost long-term profitability.

ASSETS

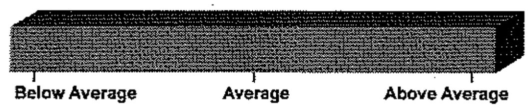
A measure of how effectively the company is utilizing its gross fixed assets.



These results are interesting: the fixed asset base stayed about the same, but net profitability improved. In other words, the company did not buy additional assets during the period, but improved the bottom line. The conclusion here is that the company did not need any more assets to improve profitability for this period. **As long as the company can keep improving profitability, it may not be beneficial to buy more assets for the present time.** This idea is further supported by the fact that the company was also able to improve both overall liquidity and net profit margins, which indicates that overall financial health and efficiency are improving. Given these results, it does not seem that company would have sufficient reason to add risk and cost to the company right now in the form of additional assets.

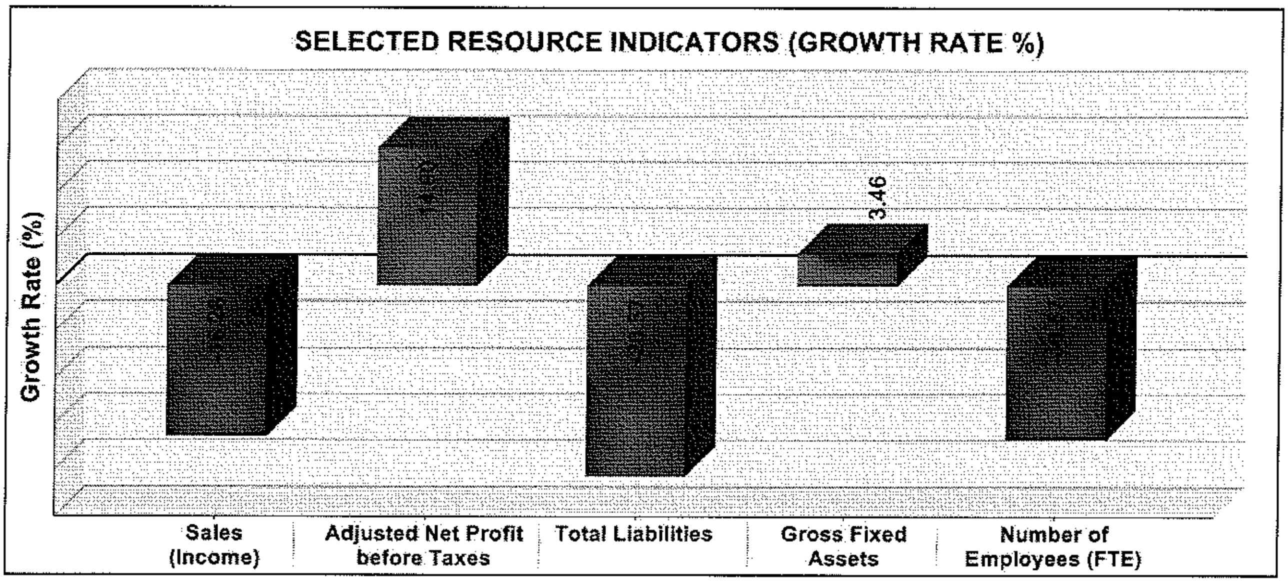
EMPLOYEES

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



The company has fewer people on staff but is actually improving net profitability. This is a positive situation. In a direct way, the company may actually benefit from having fewer people because it was able to improve net profitability on a leaner employee base. At least this analysis may hold true in the short run. Ideally, each employee should be helping to improve net profitability. In the immediate future, managers **may** be somewhat reluctant to hire more people if the company can continue to improve net profitability without them. In other words, the financial data does not suggest that it is currently necessary to hire more employees in order to improve profitability. Of course, there is no substitute for good planning in this area. Managers should not make any quick decisions without some quality thinking about company objectives and the labor requirements to reach those objectives. In short, these results are good, but this analysis is based upon past data. Good decisions are based upon an analysis of the future.

"If you took away all my skills but one, I would most like to retain my ability to select people. Everything I have is the result of assembling the right team." --- Andrew Carnegie



RAW DATA

Income Statement Data	12/31/2008	12/31/2009
Sales (Income)	$305,981	$256,175
Cost of Sales (COGS)	$184,079	$134,540
Gross Profit	$121,902	$121,635
Gross Profit Margin	39.84%	47.48%
Net Profit before Taxes	$25,147	$28,893
Adjusted Net Profit before Taxes	$25,147	$28,893
Net Profit Margin	8.22%	11.28%

Balance Sheet Data		
Cash (Bank Funds)	$98,469	$108,211
Accounts Receivable	$0	$0
Total Current Assets	$101,801	$117,155
Gross Fixed Assets	$169,455	$175,325
Total Assets	$348,951	$323,710
Total Current Liabilities	$62,354	$37,694
Total Liabilities	$167,878	$133,346
Number of Employees (FTE)	6.0	5.0

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.).