

# ANALYTICAL PROCEDURE WORKSHEET

Report prepared for: Sample

	12/31/2007	12/31/2008	Annualized 12/31/2009
<b><u>Income Statement Data</u></b>			
Sales (Income)	\$2,369,755	\$2,496,618	\$2,373,294
Cost of Sales (COGS)	\$827,145	\$872,067	\$823,308
Gross Profit	\$1,542,610	\$1,624,551	\$1,549,986
Gross Profit Margin	65.10%	65.07%	65.31%
Depreciation	\$0	\$0	\$0
Amortization	\$0	\$0	\$0
Overhead or S,G,& A Expense	\$1,449,013	\$1,501,108	\$1,383,654
Payroll / Wages / Salary	\$0	\$0	\$0
Rent	\$0	\$0	\$0
Advertising	\$0	\$0	\$0
Other Operating Income	\$0	\$0	\$0
Other Operating Expenses	\$0	\$0	\$0
Operating Profit	\$93,597	\$123,443	\$166,332
Interest Expense	\$0	\$0	\$0
Other Income	\$0	\$0	\$0
Other Expenses	\$0	\$0	\$0
Net Profit before Taxes	\$93,597	\$123,443	\$166,332
Adjusted Net Profit before Taxes	\$321,486	\$364,353	\$238,262
Net Profit Margin	13.57%	14.59%	10.04%
EBITDA	\$93,597	\$123,443	\$166,332
Taxes Paid	\$0	\$0	\$0
Extraordinary Gain	\$0	\$0	\$0
Extraordinary Loss	\$0	\$0	\$0
Net Income	\$93,597	\$123,443	\$166,332

## **Balance Sheet Data**

Cash (Bank Funds)	\$35,544	\$88,569	\$69,618
Accounts Receivable	\$0	\$0	\$90
Inventory	\$21,580	\$8,953	\$21,038
Other Current Assets	\$20,474	\$4,635	\$17,314
Total Current Assets	\$77,598	\$102,157	\$108,060
Gross Fixed Assets	\$326,851	\$294,514	\$328,354
Accumulated Depreciation	\$0	\$0	\$0
Net Fixed Assets	\$326,851	\$294,514	\$328,354
Gross Intangible Assets	\$0	\$0	\$0
Accumulated Amortization	\$0	\$0	\$0
Net Intangible Assets	\$0	\$0	\$0
Other Assets	(\$154,571)	(\$15,815)	(\$259,991)
Total Assets	\$249,878	\$380,856	\$176,423
Accounts Payable	\$52,198	\$68,455	\$33,560
Short Term Debt	\$0	\$0	\$0
Current Portion of Long Term Debt	\$0	\$0	\$0
Other Current Liabilities	\$192,494	\$19,365	\$42,754
Total Current Liabilities	\$244,692	\$87,820	\$76,314
Notes Payable / Senior Debt	\$0	\$0	\$0
Notes Payable / Subordinated Debt	\$0	\$0	\$0
Other Long Term Liabilities	\$0	\$223,396	\$0
Long Term Liabilities	\$0	\$223,396	\$0
Total Liabilities	\$244,692	\$311,216	\$76,314
Preferred Stock	\$0	\$0	\$0

Common Stock	\$0	\$0	\$0
Additional Paid-in Capital	\$0	\$0	\$0
Other Stock / Equity	\$5,186	\$69,640	\$100,109
Ending Retained Earnings	\$0	\$0	\$0
Total Equity	\$5,186	\$69,640	\$100,109
Z-Score	-1.85	2.66	8.89

## FOCUS AREAS

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*Here are some interesting findings on the company that might be worth evaluating:*

- 1     **Accounts Receivable:** There was a significant increase in accounts receivable this period. This change should be reviewed for any potential negative effects on the cash account.
  
  - 2     **Other Current Assets:** There has been a significant change in other current asset accounts. It would be a good idea to look at these accounts, particularly as they may have affected cash.
  
  - 3     **Other Current Liabilities:** There has been a significant change in other current liabilities. It would be a good idea to look at these accounts, particularly if these accounts have affected cash.
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## NC SBTDC @ NCSTATE UNIVERSITY

Report prepared for:

Industry)

Revenue: \$1M - \$10M

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

LIQUIDITY	15 out of 100	BORROWING	76 out of 100
PROFITS & PROFIT MARGIN	63 out of 100	ASSETS	47 out of 100
SALES	24 out of 100		

### LIQUIDITY

15 out of 100

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

#### Operating Cash Flow Results

The company is generating healthy cash flow from operations and profits, which is favorable. Cash flow has even increased relative to sales since last period. These are very good results, particularly since liquidity conditions at the company are soft, currently.

#### General Liquidity Conditions

The company has improved in this key area, but not quite enough -- the liquidity position remains poor this period. Specifically, this means that there does not **seem** to be enough liquid assets as compared to what is owed to short-term creditors.

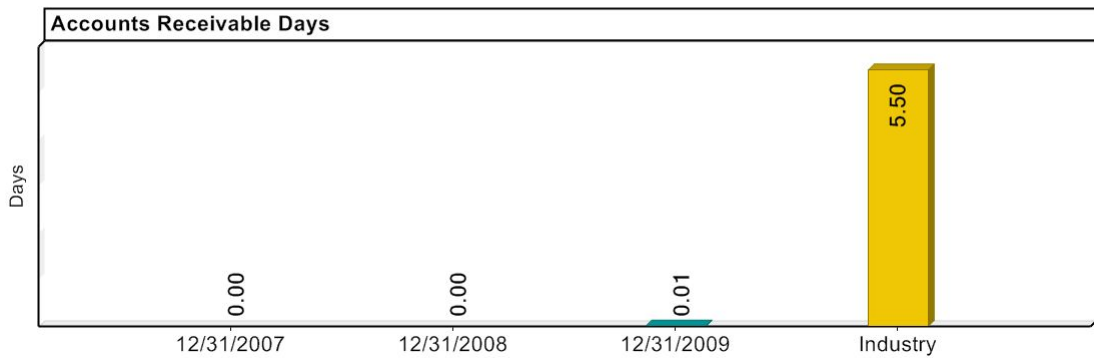
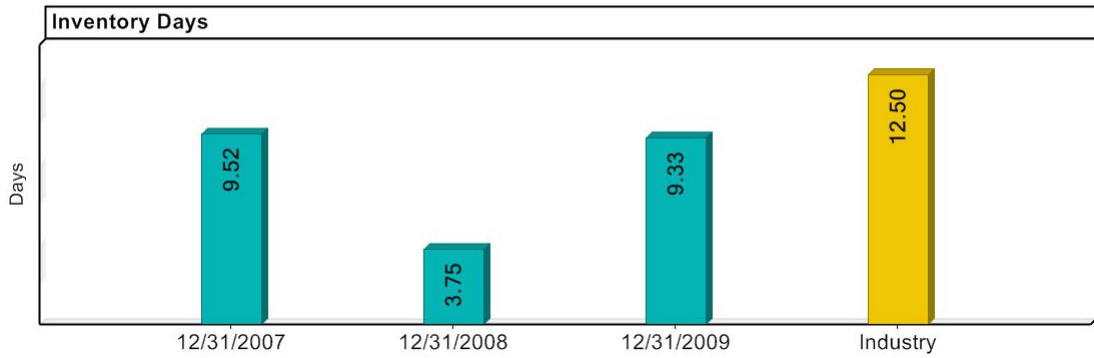
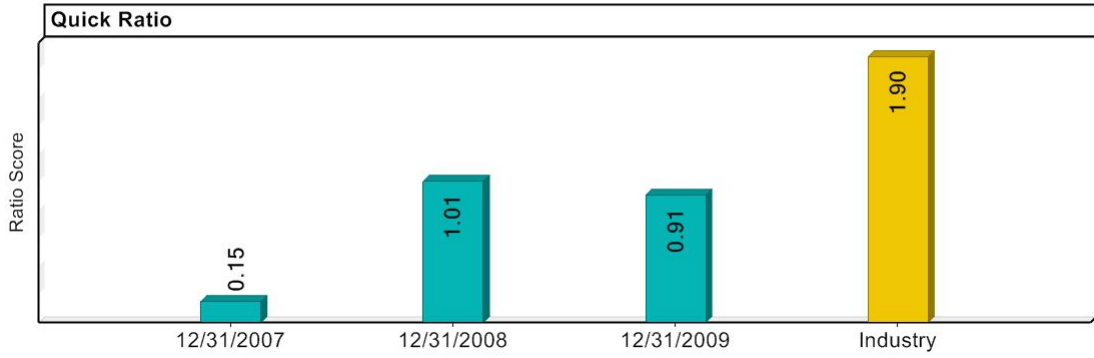
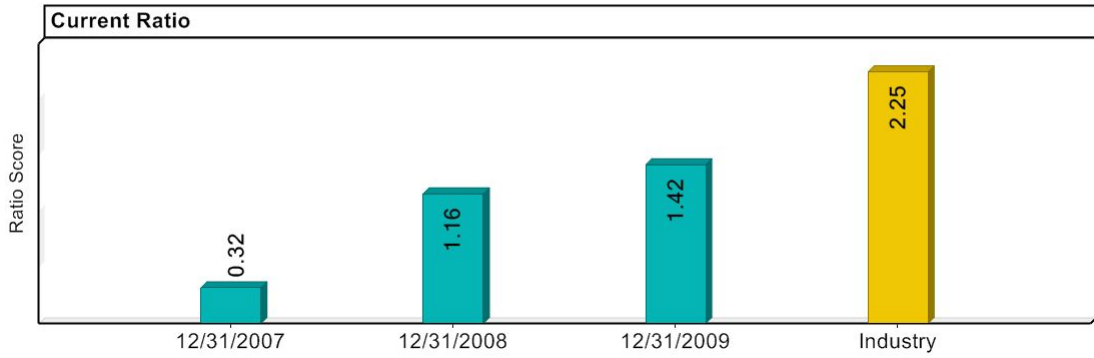
This fact, coupled with **lower sales and profits**, is somewhat concerning. When the company's liquidity position is weak, higher profits are relied upon to help improve the position over time. Some significant progress **might** need to be made in this area, or there could be some real difficulty paying the bills. It should also be noted that the firm's liquidity position is poor even relative to other similar companies in the industry. Moreover, both the current ratio and the quick ratio are poor, which indicates that the firm's liquidity is weak in both major areas.

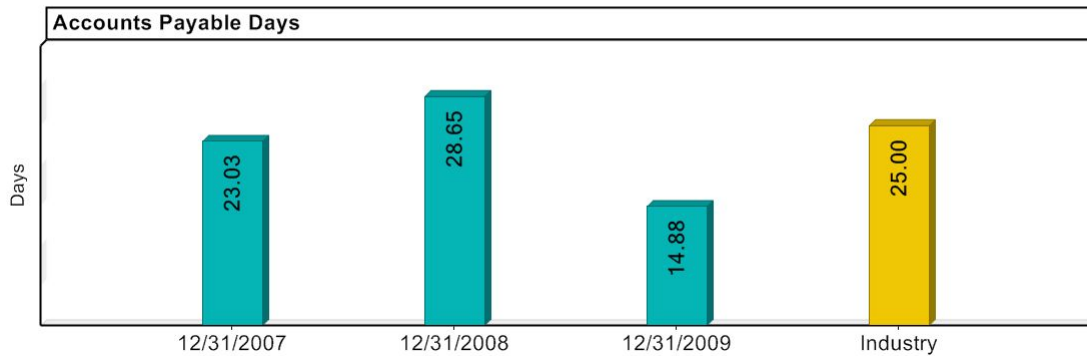
The company may not have the best overall results, but inventory days and accounts payable days are both in line with industry standards this period. Also, accounts receivable days are lower than that of many of the company's competitors, which is good since it reflects the firm's propensity to collect receivables and get cash quickly. Maintaining these turnover ratios over time may help overall liquidity conditions.

In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

- Use a monthly or bi-monthly payroll schedule, if possible, to allow funds to stay in the business longer - so long as morale will not be adversely affected.
- Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- 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.
- Rent rather than buy the establishment building when appropriate and when renting will create savings.

**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.





## PROFITS & PROFIT MARGIN

63 out of 100

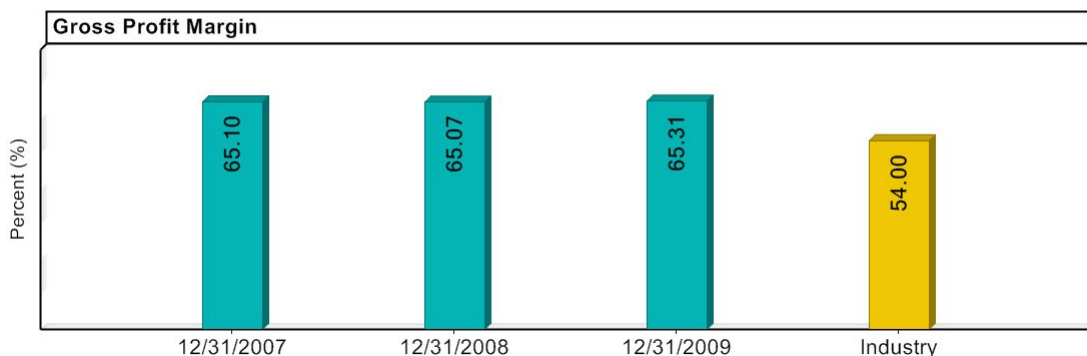
### *Are profitability trends favorable in the company?*

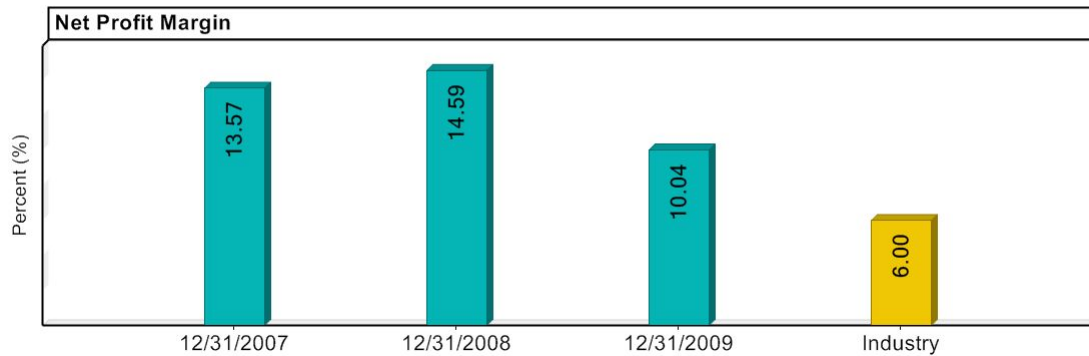
Despite having declines in a few important profitability statistics and sales this period, the company's position is still solid in this area. Sales have declined this period, and the net profit margin has declined by 31.21% as well. As a result of this, net profits in dollars have also fallen. Still, the company is generating strong net profits in the business generally. This is because the company's position was so strong last period -- even with declines this period, the position is still quite solid. As long as the company does not allow earnings to slide too much in the future, it should be in a good position.

Furthermore, the net profit margin is currently very good. The net profit margin measures the cents of profit extracted from each sales dollar. It measures managerial efficiency. This company's net profit margin is strong both generally and relative to the net margins that are being earned by other firms in this industry. This is highlighted in the graph area of the report.

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

- Stay up to date on drinking trends in the market by keeping good relations with suppliers. National and regional alcohol suppliers keep records of how their product fits into the market and can provide valuable information about customers and what they like to drink.
- Do a demographic study or contact the local chamber of commerce/city council to gain information about the local target market. The bar's concept can significantly change if it is located in a college town compared to a conservative suburb.
- Consider installing customer suggestion boxes in the establishment. Be proactive and aggressive in gathering suggestions from customers and make changes based on this information.
- Keep the bar clean, paying particular attention to bathrooms. Have bathrooms cleaned on regular intervals and make sure they are functioning properly.



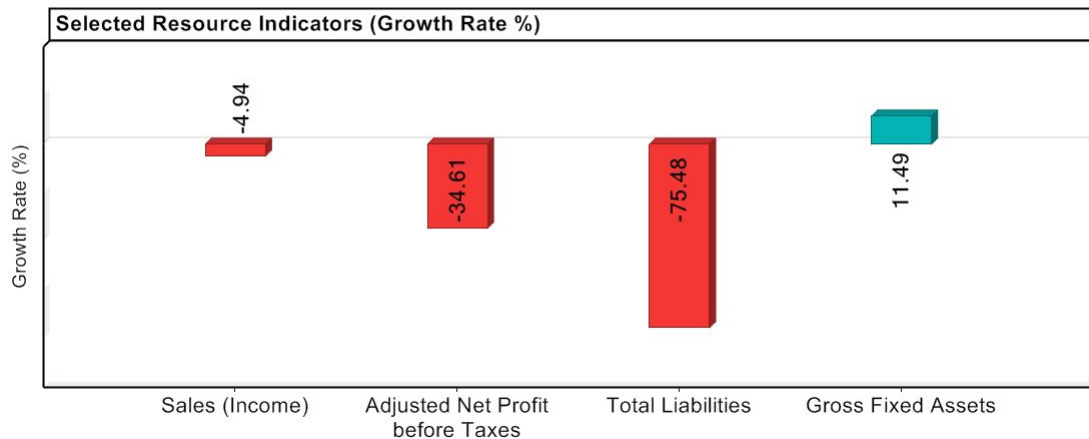


## SALES

24 out of 100

*Are sales growing and satisfactory?*

Sales are down from last period, which has already been discussed. However, it should be noted that sales went down at the same time that management bought fixed assets. Generally, it is important to increase revenue as assets increase, because new assets have to be paid for from the collection of sales dollars. It could be that management just made an investment in assets to provide **long-term** sales, but this situation is still worth noting. Profitability trends are more important than sales, but companies clearly prefer to see higher sales as resources are added.



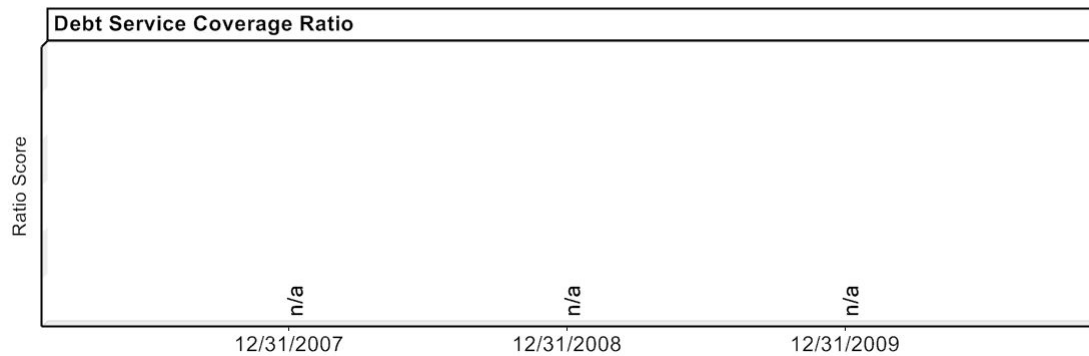
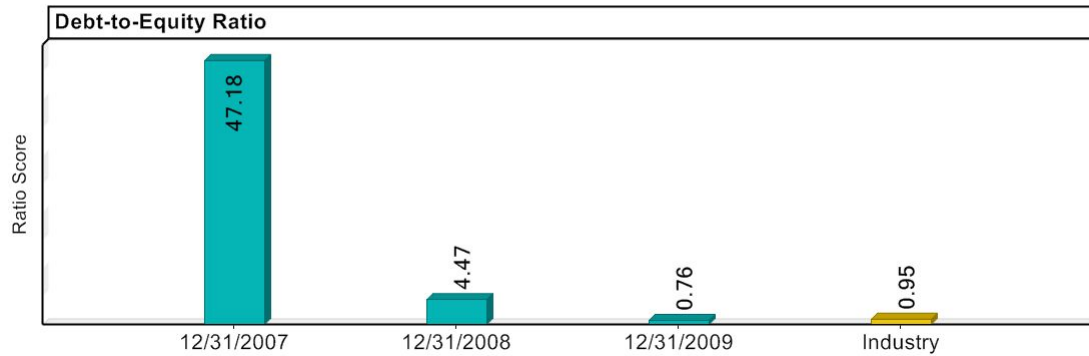
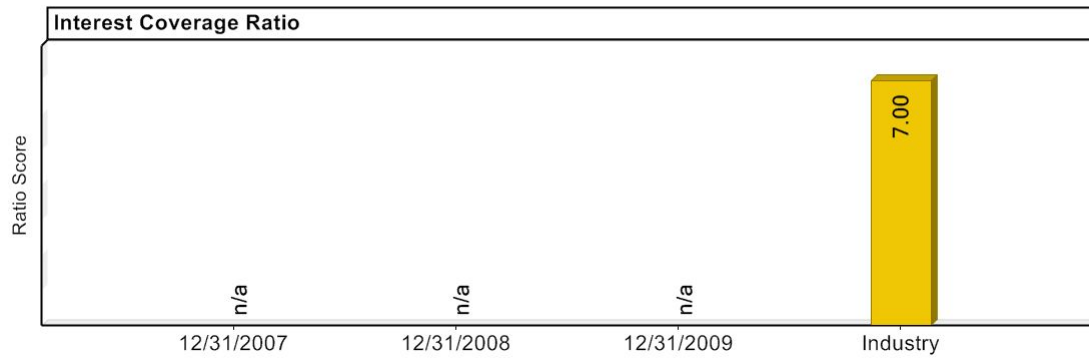
## BORROWING

76 out of 100

*Is the company borrowing profitably?*

These results are very interesting: debt went down, but so did profitability. It is somewhat difficult to reach a conclusion here, but because debt fell faster than profitability, there is indication of positive management of debt. Basically, the **rate** of debt loss is higher than the rate of profitability loss. Since debt is a resource that costs money, these results are positive.

Relative to its industry, the company currently has a moderate amount of debt as compared to equity. This is interesting, considering the fact that the company is not reporting net interest charges. In most cases, debt is accompanied by net interest charges. It would also be noteworthy to review if the company has significant cash balances that earn interest, which could have set the interest coverage ratio artificially low for the period.



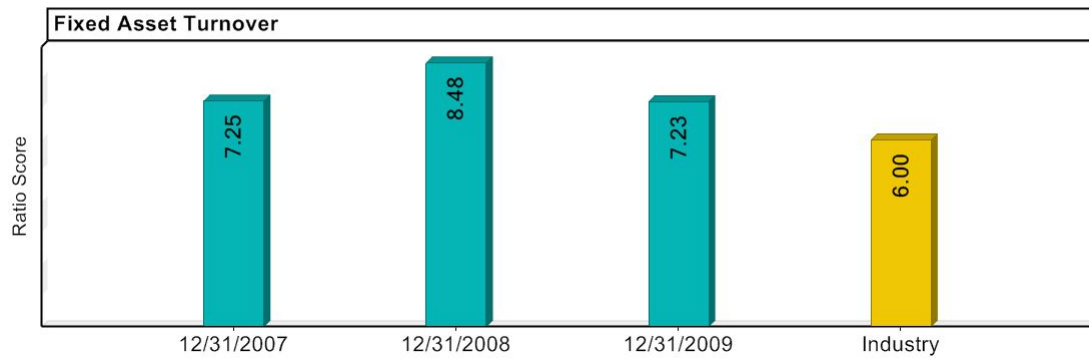
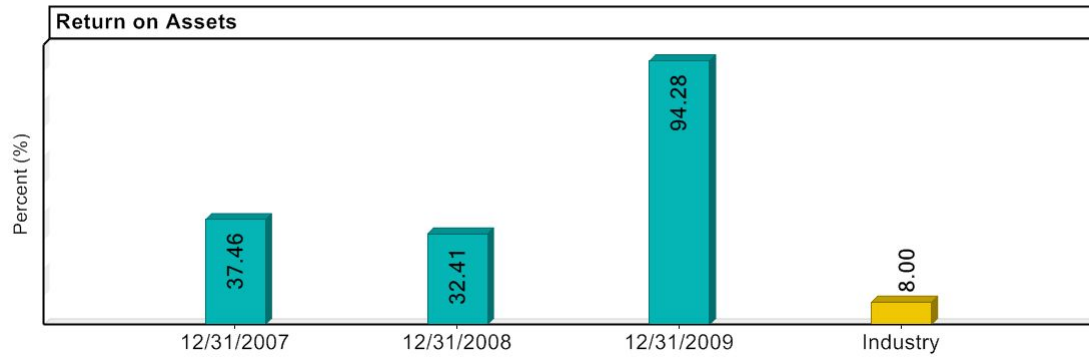
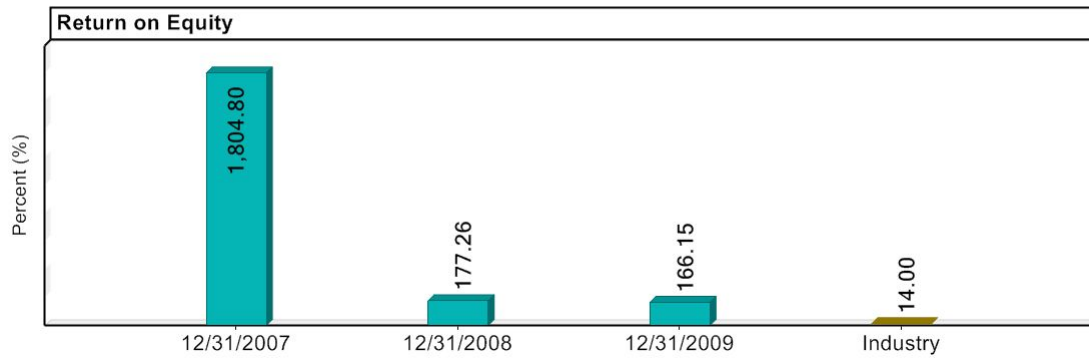
## ASSETS

47 out of 100

### *Is the company using gross fixed assets effectively?*

The company has invested in more fixed assets but profitability has fallen this period. The company will want to avoid allowing this result to turn into a trend. Over the long run, these types of results could potentially depress profitability. In addition, the company's efficiency has fallen, since the net profit margins have also decreased. Ultimately, fixed asset additions should improve both margins and profitability over time.

Notice that the company generated relatively strong returns on its assets and equity this period, which is a positive result. Earning a strong return on assets is important, because assets generally represent a cost that is expected to reap future economic benefits for the company.



**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 SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
<b>Current Ratio</b> = Total Current Assets / Total Current Liabilities	1.42	1.50 to 3.00	-5.33%
<p><b>Explanation:</b> 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.</p>			
<b>Quick Ratio</b> = (Cash + Accounts Receivable) / Total Current Liabilities	0.91	1.20 to 2.60	-24.17%
<p><b>Explanation:</b> 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.</p>			
<b>Inventory Days</b> = (Inventory / COGS) * 365	9.33 Days	5.00 to 20.00 Days	0.00%
<p><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.</p>			
<b>Accounts Receivable Days</b> = (Accounts Receivable / Sales) * 365	0.01 Days	1.00 to 10.00 Days	+99.00%
<p><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.</p>			
<b>Accounts Payable Days</b> = (Accounts Payable / COGS) * 365	14.88 Days	10.00 to 40.00 Days	0.00%
<p><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.</p>			
<b>Gross Profit Margin</b> = Gross Profit / Sales	65.31%	50.00% to 58.00%	+12.60%
<p><b>Explanation:</b> 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. Higher is normally better (the company is more efficient).</p>			
<b>Net Profit Margin</b> = Adjusted Net Profit before Taxes / Sales	10.04%	2.00% to 10.00%	+0.40%
<p><b>Explanation:</b> 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.</p>			
<b>Interest Coverage Ratio</b> = EBITDA / Interest Expense	N/A	2.00 to 12.00	N/A

**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.

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<b>Debt-to-Equity Ratio</b>	0.76	0.60 to 1.30	0.00%
= Total Liabilities / Total Equity			

**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.

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<b>Debt Service Coverage Ratio</b>	N/A	N/A	N/A
= EBITDA / (Prior Period CPLTD + Interest Expense)			

**Explanation:** This is a measure of a company's ability to repay principal and interest obligations from earnings.

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<b>Return on Equity</b>	166.15%	8.00% to 20.00%	+730.75%
= Net Income / Total Equity			

**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.

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<b>Return on Assets</b>	94.28%	6.00% to 10.00%	+842.80%
= Net Income / Total Assets			

**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.

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<b>Fixed Asset Turnover</b>	7.23	2.00 to 10.00	0.00%
= Sales / Gross Fixed Assets			

**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.

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<b>Z-Score</b>	8.89	1.10 to 2.60	+241.92%
= (6.56*X1 + 3.26*X2 + 6.72*X3 + 1.05*X4)			
X1 = (Current Assets - Current Liabilities) / Total Assets;			
X2 = Retained Earnings / Total Assets;			
X3 = EBIT / Total Assets;			
X4 = Total Equity / Total Liabilities;			

**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 firm's probability of bankruptcy in the next year. How to interpret the Z-Score: a score of 2.60 or above implies a low risk of bankruptcy; a score between 1.10 and 2.60 is an average risk; a score of 1.10 or lower signals a high risk of bankruptcy.

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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.).

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