Industry Comparative Report

Real Beverage Company

Provided By

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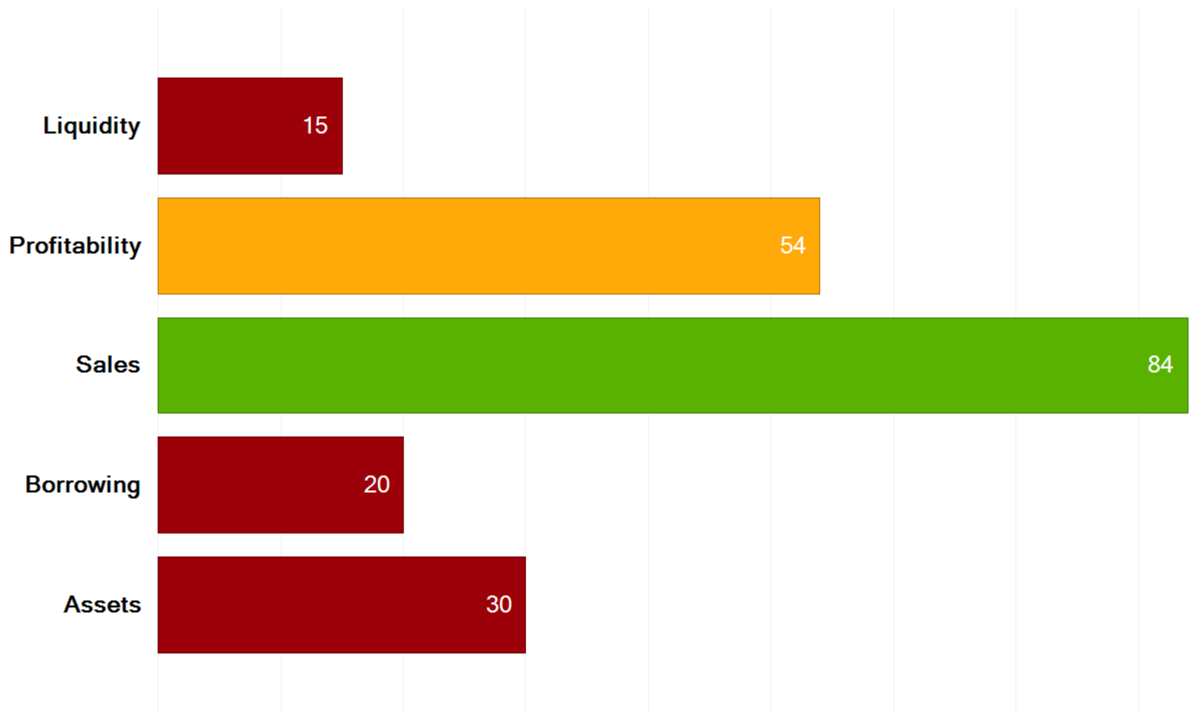
SINCE 1987

Financial Score

Real Beverage Company Narrative Report

Industry: 424490 - Other Grocery and Related Products Merchant Wholesalers
Revenue: $1M - $10M
Periods: 12 months against the same 12 months from the previous year

Report Summary



Liquidity 15 out of 100

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

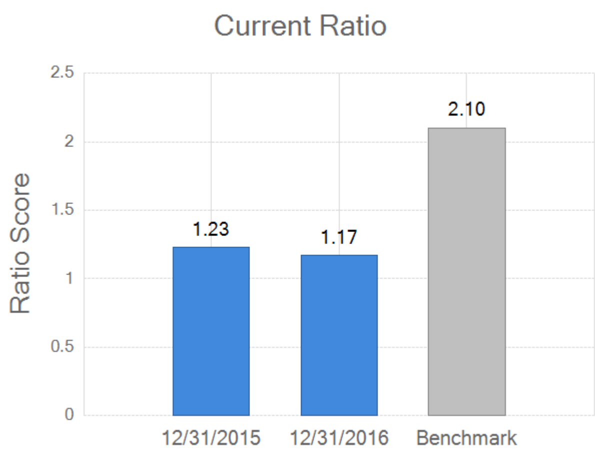
Operating Cash Flow Results
The company has generated negative cash flow from operations, which takes into account both major working capital accounts on the Balance Sheet and performance on the Income Statement. Given overall liquidity conditions, as will be discussed below, it seems like the company may have some difficulty. Look at working capital accounts specifically (current assets and current liabilities) because it seems like they caused the negative cash flow since the company is profitable this period.

General Liquidity Conditions
Even though sales have increased significantly this period, the company's liquidity position has actually fallen. The overall liquidity position is poor for two main reasons. **First**, there is not enough money invested in cash and near-cash assets. This is an important item to note because the company needs strength in its cash accounts since these are the assets that are used to pay the bills. **Also monitor the lower net margin -- this may be the result of increased sales dollars being eaten up by extra expenses**.

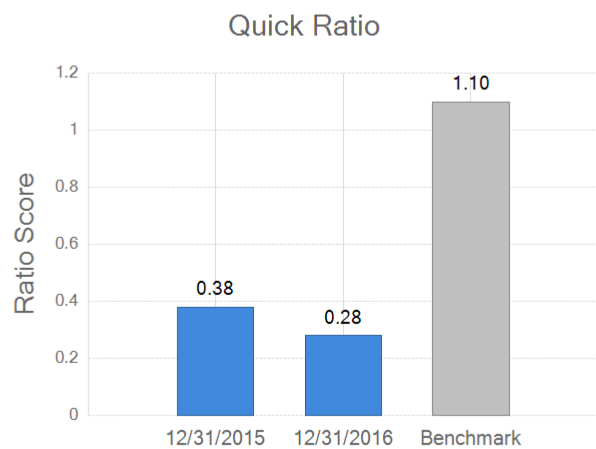
Second, the company has an insufficient amount of total current assets as compared to its short-term obligations. What does this mean? It means that the firm does not have strength in its cash accounts or in its other current accounts that support the cash assets. This could make it somewhat difficult to pay the bills over time if these conditions continue. In short, the firm needs to do better in this key area. Remember that the "scores" in this area are based upon comparing the company's data to the data of other similar companies in the industry.

It would also be important to look at certain specific items more closely. In particular, notice the company's relatively high inventory days and high accounts payable days ratios. Inventory days serve as a rough measure of how long it is taking to convert or sell inventory. Creditors typically do not like high values for accounts payable days since it implies that a company **may** have some difficulty paying bills. Over time, it would be positive to see the company float these two metrics down to help improve overall liquidity health.

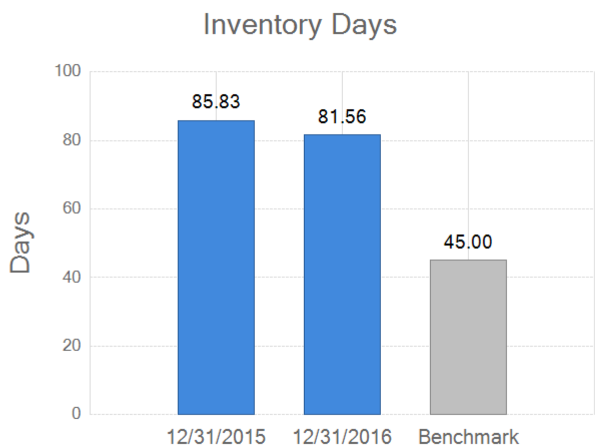
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



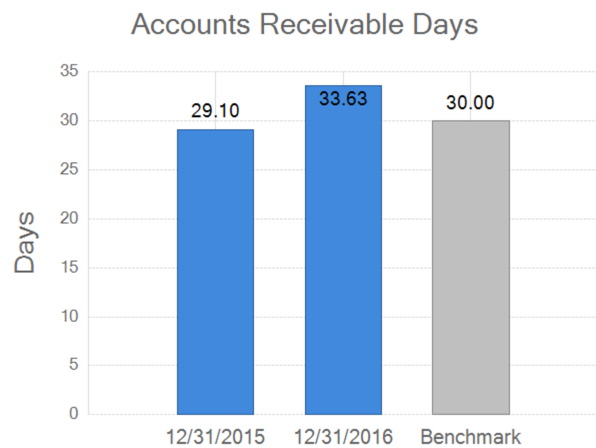
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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



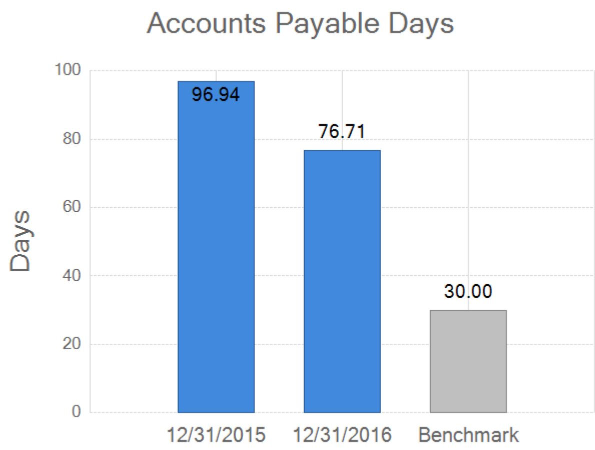
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the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

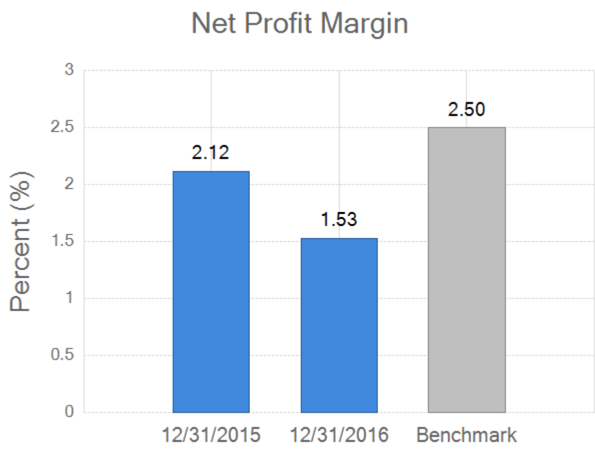
Profits & Profit Margin 54 out of 100

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

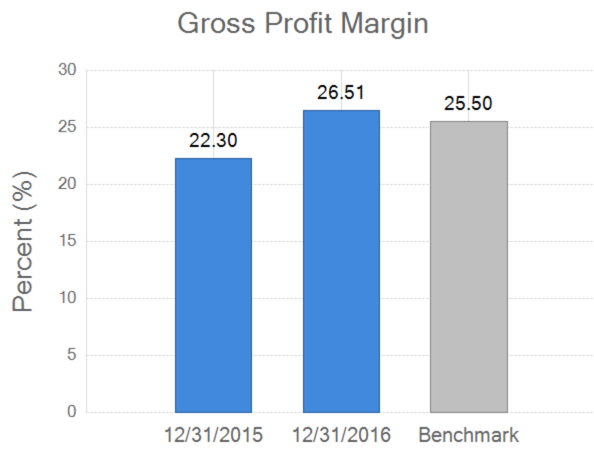
The company's sales rose significantly by 20.16%, but net profits and net profit margins fell substantially from last period. Even though net profit margins are still fairly good, this may cause some concern. It specifically means that the company spent significant amounts of resources on operating costs. Moreover, it means that the increased expenditures have not yet paid off in higher net profits. The company should look to see if net profits move up in the future as a result of these expenditures. If they do not, the company may be investing in the wrong types of resources. Conversely, it could indicate that this company has reached a new relevant range for its business -- a new cost structure that the company needs to grow into. In short, it is unusual to increase sales but to see net profits fall at the same time, as is occurring here.

There are some clearly positive results here as well. Both the gross profit margin and gross profit dollars are higher. The company has both increased its sales volume and managed it better on the front line. This is truly great management. It is good to see gross margins increasing because this indicates that the company is managing its sales growth well.

When sales volume rises and gross margins rise, either the dynamic between variable costs and prices is being managed more effectively or there are fixed costs in the cost of sales area. It is important for managers to determine which scenario is the case, since it can indicate generally how much future sales increases will drive up gross profits. For example, if there are fixed costs in the cost of sales area, then gross profits will increase very quickly with sales increases, because fixed costs tend to stay flat over time.



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.

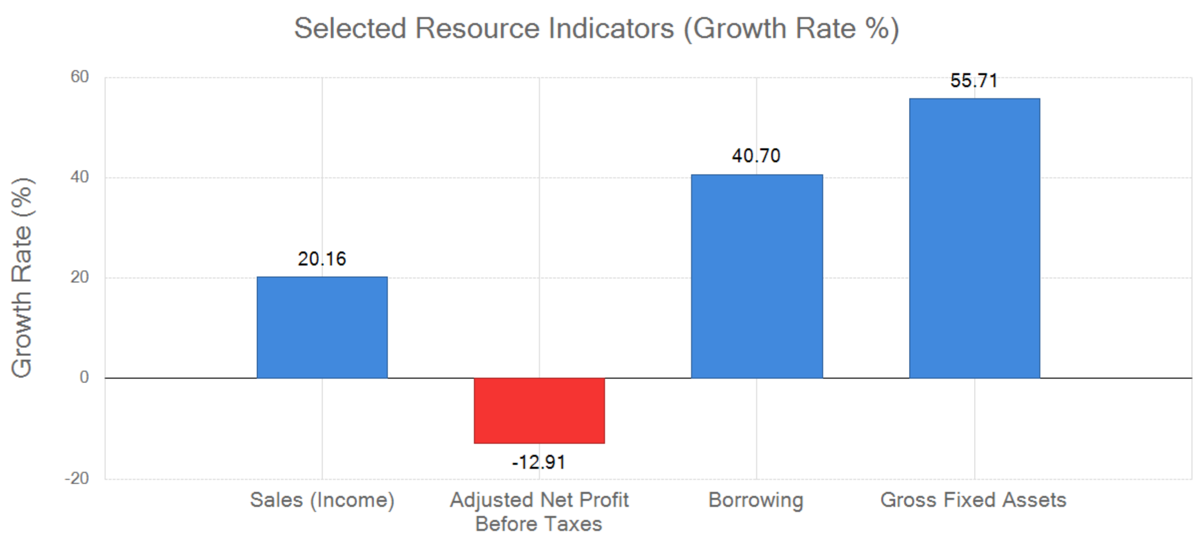


This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better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

Sales 84 out of 100

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

Significant increases in sales were realized this period. It looks like the firm has also added a substantial amount of fixed assets. If these assets have helped to drive sales higher, then the company should be generally pleased that the asset base is generating more sales dollars. Ideally, this dynamic will help the company earn greater profitability in the future.



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

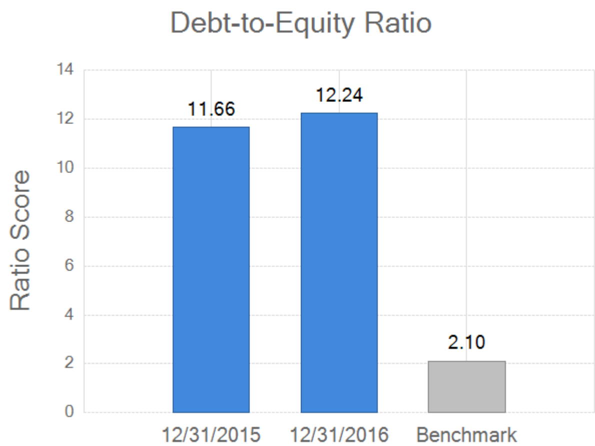
Borrowing 20 out of 100

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

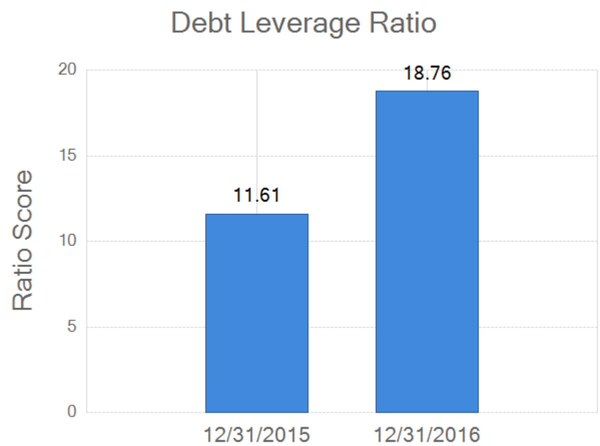
Every company needs to make sure it is borrowing effectively -- using leverage optimally. In this case, significant debt was added, but profitability went down from last period. Although it is possible that the company has invested in some resources that will generate profitability in the future, it could also be that the investment in debt has simply not been helpful. Even short-term debt carries some risk and should therefore return improved profitability. Additionally, net margins are down by 27.53% this period, which is not favorable when combined with lower profitability in dollars.

Also notice that the company's level of debt is relatively high in comparison to its level of equity, yet it is not reporting net interest expenses. This is not a typical situation for most companies. Since the company's overall score is poor in this area, it would be important to assess why the company carries significant debt but has no net interest charges. Look for cash balances that carry significant interest revenue. Look also for an untraditional debt structure that may have provisions for interest charges in the future.

On a general note, it is a good idea to meet with the company's bankers on a regular basis to keep the relationships strong and use them as strategic partners to optimize the company's use of debt.



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.



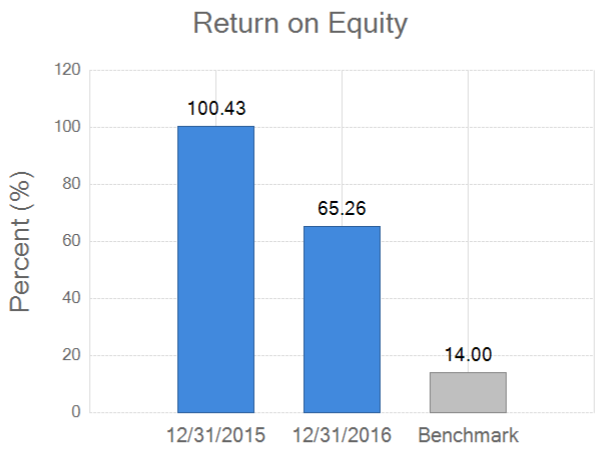
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

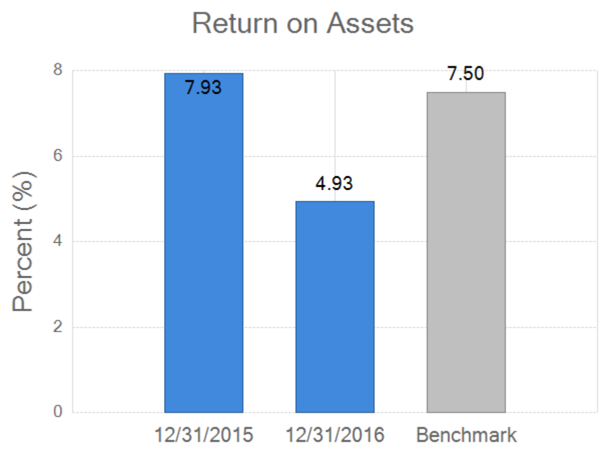
Assets **30 out of 100**

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

The goal of increasing a resource in a business is to improve profitability. In this case, the company added fixed assets, but those assets have yet to improve profitability. In fact, profitability is down from last period. This is a bit concerning, especially given the lower profit margins mentioned earlier. Generally, it is expected to see net margins (a measure of efficiency) improve as resources such as assets are added. Since assets represent a bundled cost that must be paid for over time, they must generate adequate returns in the form of improved profitability to justify bringing them in.

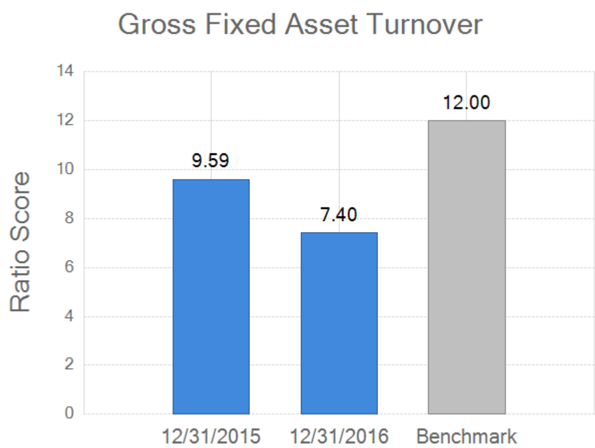
Finally, notice that the company generated a relatively strong return on equity and a fairly poor return on assets this period. This is a somewhat unusual result. Management may want to review how it is managing its assets, because assets generally are a cost to the company that is expected to generate a return in the future.





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.

Raw Data

Income Statement Data	12/31/2015	12/31/2016
Sales (Income)	$4,782,588	$5,746,812
Cost of Sales (COGS)	$3,716,182	$4,223,229
Depreciation (COGS-related)	$0	$0
Purchases for Resale	$0	$0
Direct Materials	$0	$0
Direct Labor	$0	$0
Gross Profit	$1,066,406	$1,523,583
Gross Profit Margin	22.30%	26.51%
Depreciation	$0	$0
Amortization	$0	$0
Overhead or S,G,& A Expenses	$0	$0
G & A Payroll Expense	$0	$0
Rent	$0	$0
Advertising	$0	$0
Other Operating Income	$0	$0
Other Operating Expenses	$965,141	$1,435,396
Operating Profit	$101,265	$88,187
Interest Expense	$0	$0
Other Income	$0	$0
Other Expenses	$0	$0
Net Profit Before Taxes	$101,265	$88,187
Adjusted Net Profit Before Taxes	$101,265	$88,187
Net Profit Margin	2.12%	1.53%
EBITDA	$101,265	$88,187
Taxes Paid	$0	$0
Extraordinary Gain	$0	$0
Extraordinary Loss	$0	$0
Net Income	$101,265	$88,187
Balance Sheet Data	**12/31/2015**	**12/31/2016**
Cash (Bank Funds)	$16,982	($225,255)
Accounts Receivable	$381,314	$529,560
Inventory	$873,850	$943,647
Other Current Assets	$4,101	$1,674
Total Current Assets	$1,276,247	$1,249,626
Gross Fixed Assets	$498,880	$776,782
Accumulated Depreciation	$498,039	$498,039
Net Fixed Assets	$841	$278,743
Gross Intangible Assets	$14,615	$261,182
Accumulated Amortization	$14,995	$0
Net Intangible Assets	($380)	$261,182
Other Assets	$0	$0
Total Assets	$1,276,708	$1,789,551
Accounts Payable	$986,953	$887,573
Short Term Debt	$46,255	$172,000
Notes Payable / Current Portion of Long Term Debt	$0	$0
Other Current Liabilities	$5,762	$12,301
Total Current Liabilities	$1,038,970	$1,071,874
Notes Payable / Senior Debt	$24,819	$468,417
Notes Payable / Subordinated Debt	$112,092	$114,132
Other Long Term Liabilities	$0	$0

Total Long Term Liabilities	$136,911	$582,549
Total Liabilities	$1,175,881	$1,654,423
Preferred Stock	$0	$0
Common Stock	$1,000	$1,000
Additional Paid-in Capital	$0	$0
Other Stock / Equity	$0	$0
Ending Retained Earnings	$99,827	$134,128
Total Equity	$100,827	$135,128
Total Liabilities + Equity	$1,276,708	$1,789,551

Common Size Statements

Income Statement Data	**12/31/2015**	**12/31/2016**	**Industry* (1054)**
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	78%	73%	72%
Depreciation (COGS-related)	0%	0%	--
Purchases for Resale	0%	0%	71%
Direct Materials	0%	0%	48%
Direct Labor	0%	0%	10%
Gross Profit	22%	27%	28%
Depreciation	0%	0%	1%
Amortization	0%	0%	0%
Overhead or S,G,& A Expenses	0%	0%	24%
G & A Payroll Expense	0%	0%	11%
Rent	0%	0%	2%
Advertising	0%	0%	0%
Other Operating Income	0%	0%	0%
Other Operating Expenses	20%	25%	1%
Operating Profit	2%	2%	2%
Interest Expense	0%	0%	1%
Other Income	0%	0%	0%
Other Expenses	0%	0%	0%
Net Profit Before Taxes	2%	2%	2%
Adjusted Net Profit Before Taxes	2%	2%	2%
EBITDA	2%	2%	3%
Taxes Paid	0%	0%	1%
Extraordinary Gain	0%	0%	0%
Extraordinary Loss	0%	0%	0%
Net Income	2%	2%	1%
Balance Sheet Data	**12/31/2015**	**12/31/2016**	**Industry* (1054)**
Cash (Bank Funds)	1%	-13%	5%
Accounts Receivable	30%	30%	27%
Inventory	68%	53%	31%
Other Current Assets	0%	0%	2%
Total Current Assets	100%	70%	70%
Gross Fixed Assets	39%	43%	62%
Accumulated Depreciation	39%	28%	37%
Net Fixed Assets	0%	16%	24%
Gross Intangible Assets	1%	15%	0%
Accumulated Amortization	1%	0%	0%
Net Intangible Assets	0%	15%	0%
Other Assets	0%	0%	6%

Total Assets	100%	100%	100%
Accounts Payable	77%	50%	28%
Short Term Debt	4%	10%	1%
Notes Payable / Current Portion of Long Term Debt	0%	0%	1%
Other Current Liabilities	0%	1%	9%
Total Current Liabilities	81%	60%	50%
Notes Payable / Senior Debt	2%	26%	7%
Notes Payable / Subordinated Debt	9%	6%	0%
Other Long Term Liabilities	0%	0%	3%
Total Long Term Liabilities	11%	33%	29%
Total Liabilities	92%	92%	78%
Preferred Stock	0%	0%	0%
Common Stock	0%	0%	1%
Additional Paid-in Capital	0%	0%	0%
Other Stock / Equity	0%	0%	2%
Ending Retained Earnings	8%	7%	8%
Total Equity	8%	8%	22%
Total Liabilities + Equity	100%	100%	100%

*The industry common size figures shown above were taken from all private company data for companies with industry code 424490 for all years in all areas with yearly sales $1 million to $10 million.

Industry Scorecard

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.17	1.50 to 2.70	-22.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	0.28	0.70 to 1.50	-60.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	1.53%	0.50% to 4.50%	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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Inventory Days = (Inventory / COGS) * 365	81.56 Days	30.00 to 60.00 Days	-35.93%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	33.63 Days	15.00 to 45.00 Days	0.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Payable Days = (Accounts Payable / COGS) * 365	76.71 Days	15.00 to 45.00 Days	-70.47%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Debt-to-Equity Ratio = Total Liabilities / Total Equity	12.24	1.20 to 3.00	-308.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Return on Equity = Net Income / Total Equity	65.26%	8.00% to 20.00%	+226.30%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Return on Assets = Net Income / Total Assets	4.93%	5.00% to 10.00%	-1.40%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Gross Fixed Asset Turnover = Sales / Gross Fixed Assets	7.40	6.00 to 18.00	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.

Gross Profit Margin = Gross Profit / Sales	26.51%	20.00% to 31.00%	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).

Debt Leverage Ratio = Total Liabilities / EBITDA	18.76	--	--

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

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.).