Industry Comparative Report

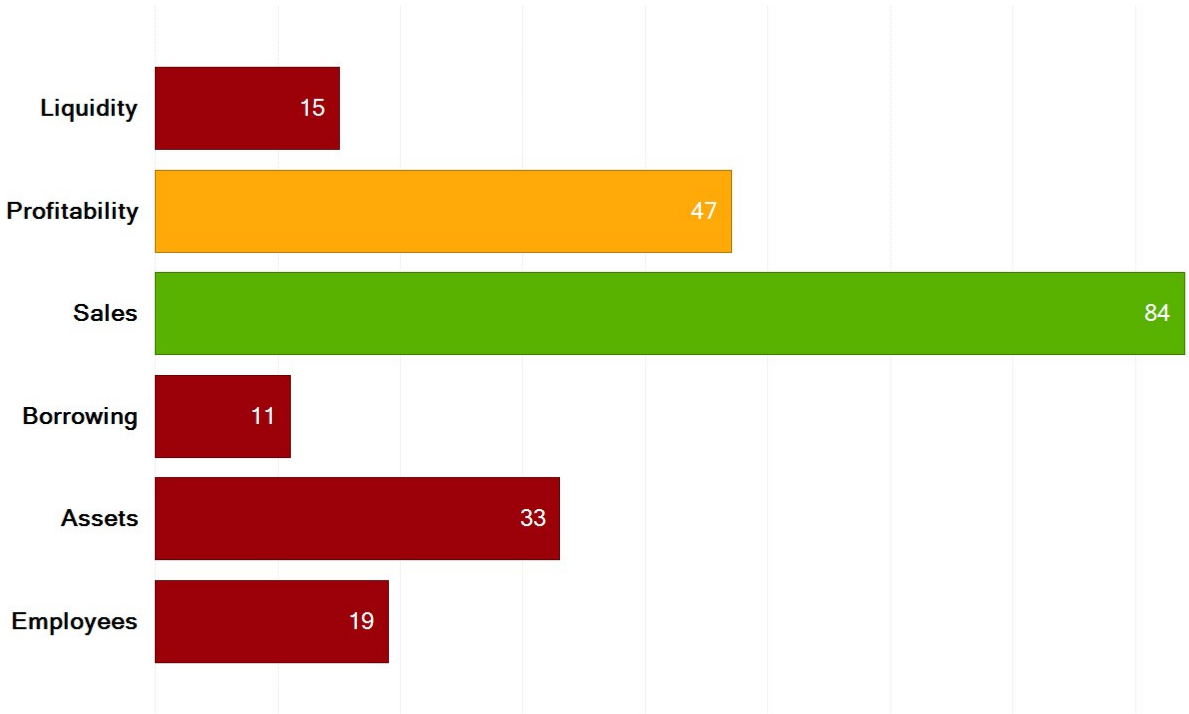
Real Contracting Company

Provided By

Real Contracting Company Narrative Report

Industry:	238210 - Electrical Contractors and Other Wiring Installation Contractors
Revenue:	$10M - $50M
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.

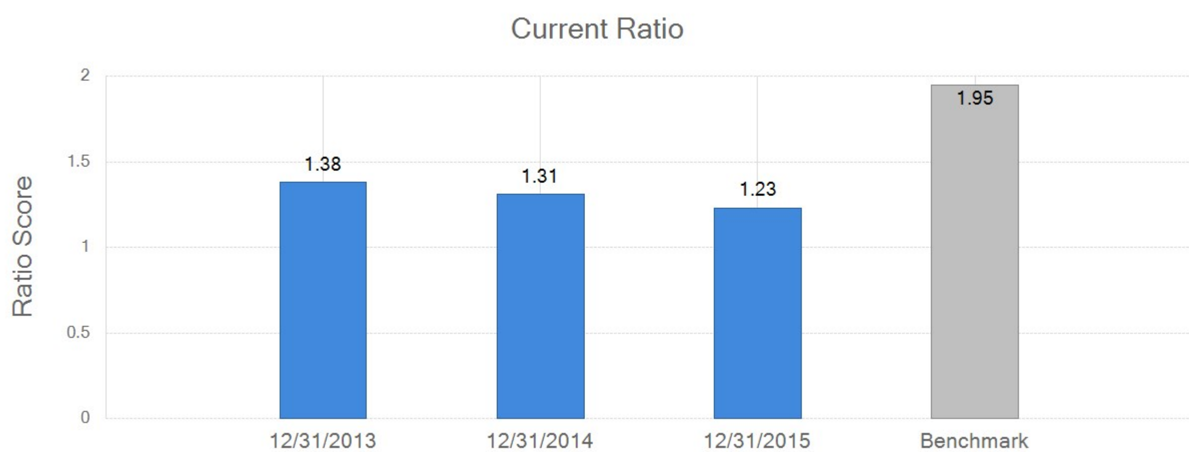
Operating Cash Flow Results
Despite being profitable, the company has generated negative cash flow from operations this period, and cash flow has declined relative to sales. This is troublesome, particularly since overall liquidity conditions seem weak. Now is likely a good time to examine the Statement of Cash Flows to see exactly how cash is entering and leaving the company.

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**.

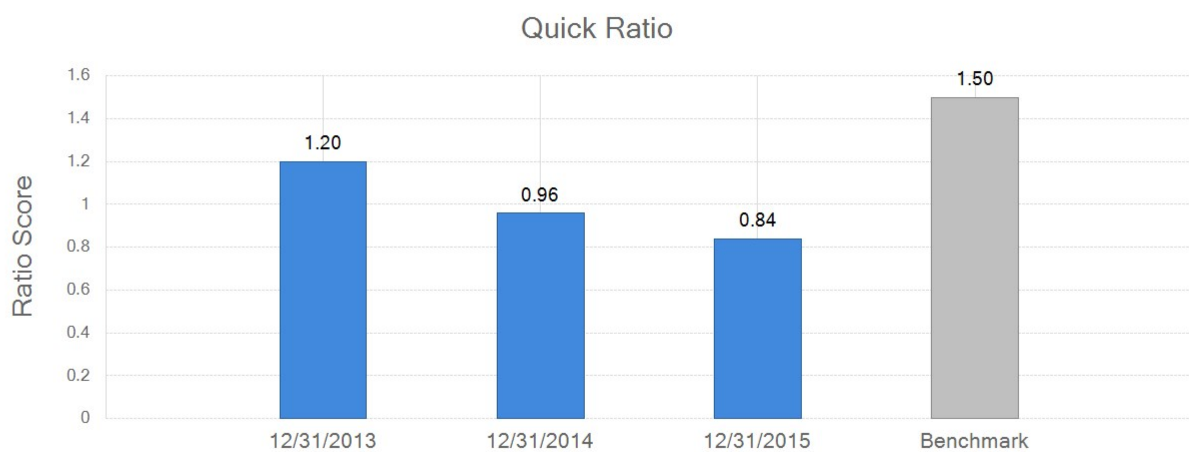
Second, the company has an insufficient amount of total current assets as compared to its short-term obligations. What does this mean? It means that the firm does not have strength in its cash accounts or in its other current accounts that support the cash assets. This could make it somewhat difficult 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.

Inventory days and accounts receivable days are high in comparison to conditions in other similar companies. A high inventory days ratio typically indicates that the company could be taking a relatively long time to sell inventory. The high accounts receivable days number shows the company is taking a longer length of time collecting money from customers. Higher AR and inventory days ratios would tend to depress 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.

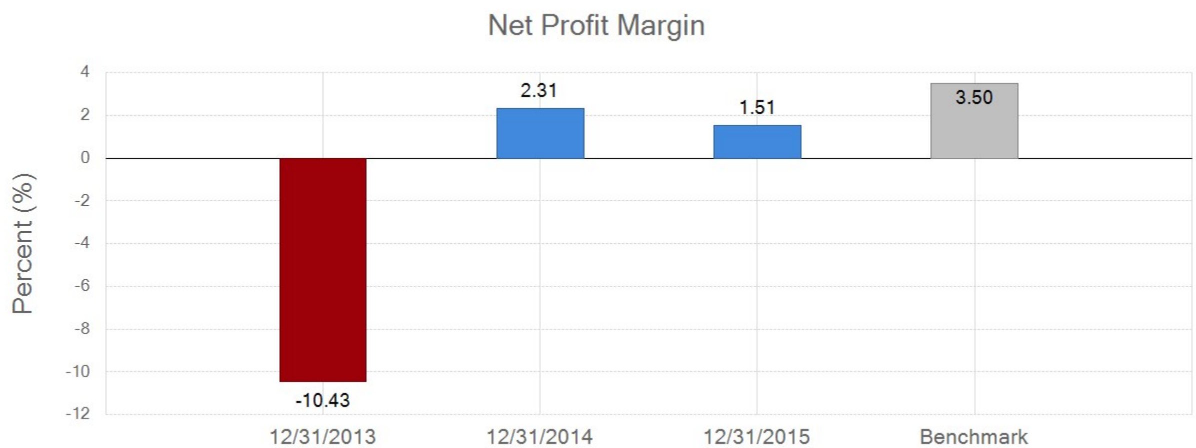
Profits & Profit Margin 47 out of 100

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

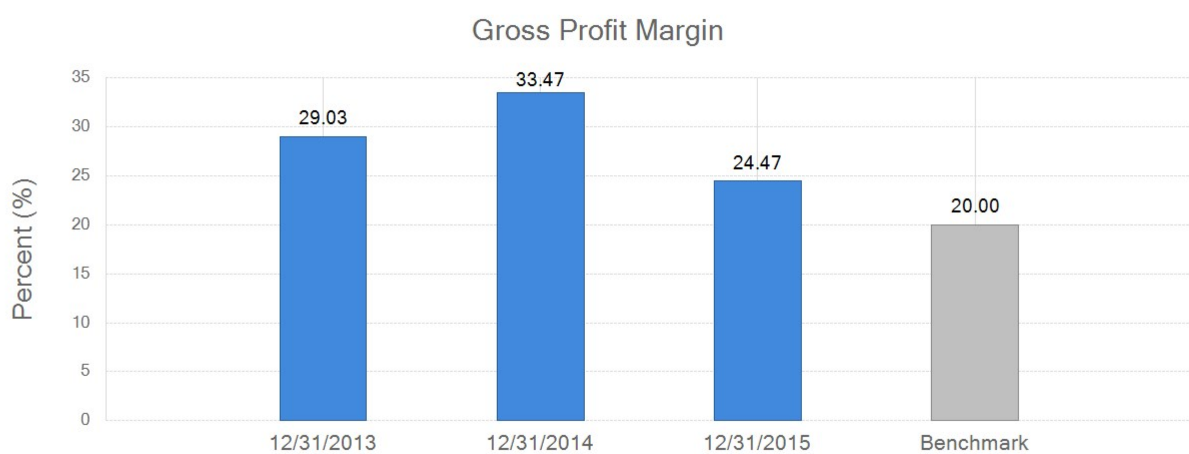
While this company increased its sales significantly by 41.44% this period, it did not see substantially better results in the Profitability area. In fact, many of the company's important profitability indicators declined this period. The company's gross profit margin fell by 26.90% this period, canceling out the large sales increase (gross profit dollars remained about where they were last period). While the company is bringing in more sales dollars at this time, it is managing those sales dollars less effectively and spending a higher percentage just to cover costs of sales.

It looks like the company may need to pay closer attention to its expense management while driving in more sales, because its net profit margin also declined this period. It seems that the company is spending much more money to cover overhead costs at this time. Net profits for the company declined as a result of the increased overhead expenses. Companies often spend more on operating costs as sales are growing, but it is important to be careful to make sure net profit margins are stable and that the expenditures will generate solid future returns. Otherwise, these additional expenditures could saddle the company with permanently higher overhead. Cost structures of companies rarely diminish.

Still, the company's overall profitability position is fair. Its net profit margin is still in line with what the average firm in this industry is earning, despite its decline. The company's competitive net margin position is illustrated in the graph area of the report.

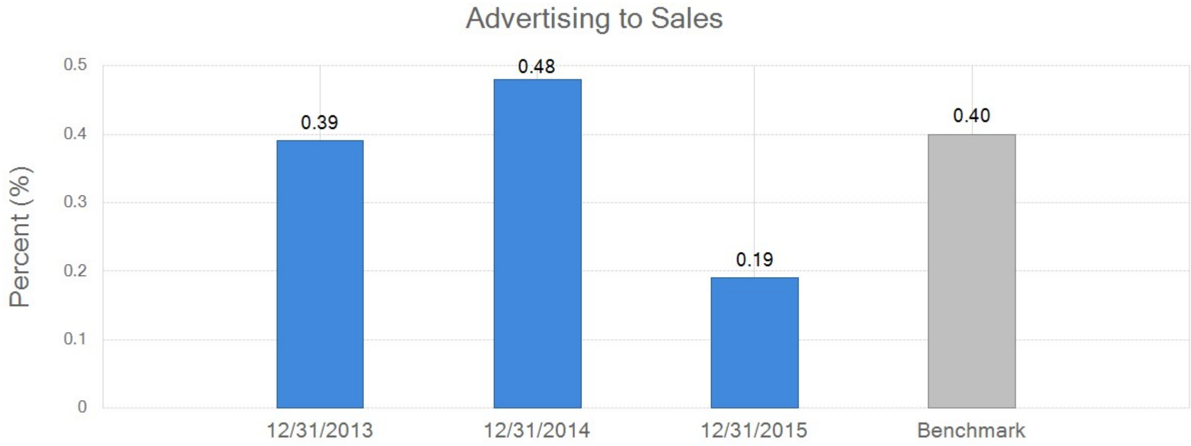


This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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

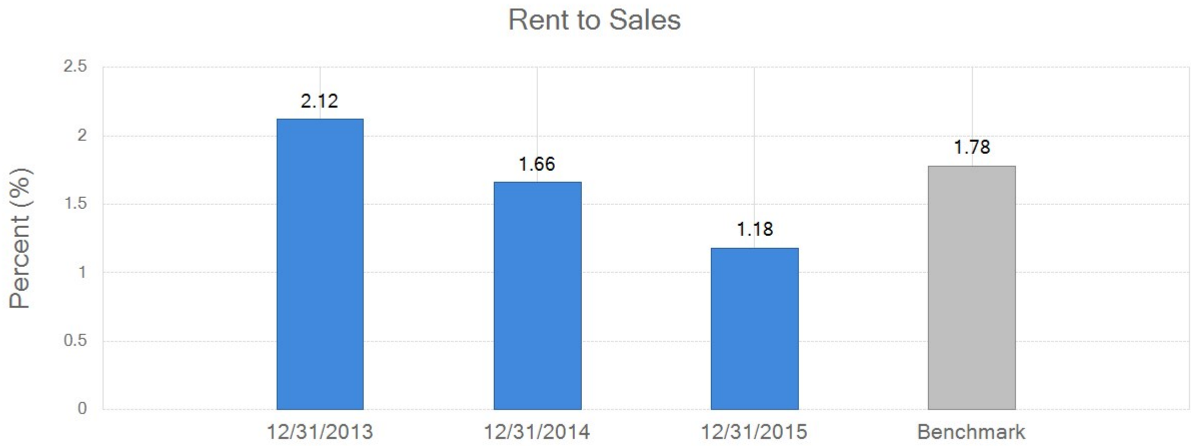


This number indicates the percentage of sales revenue that is not paid out in direct costs (costs

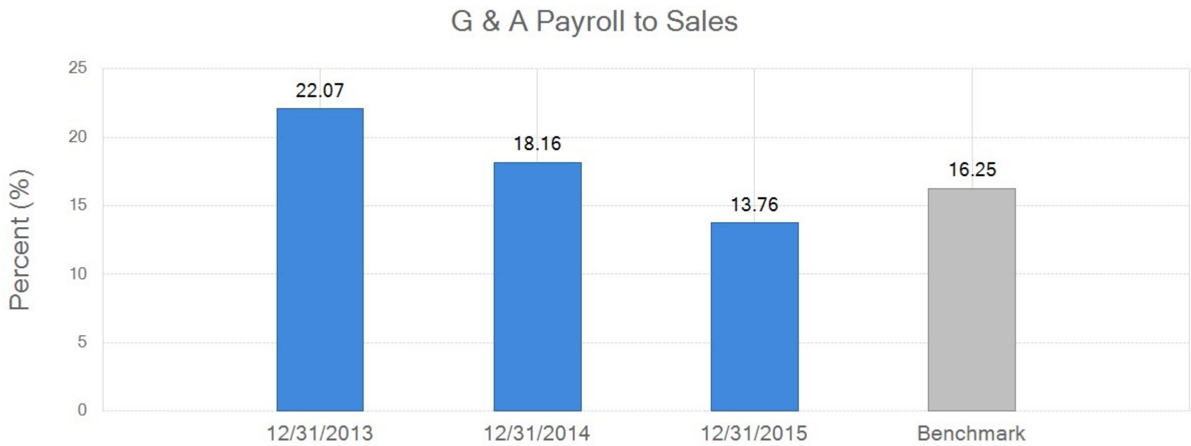
of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).



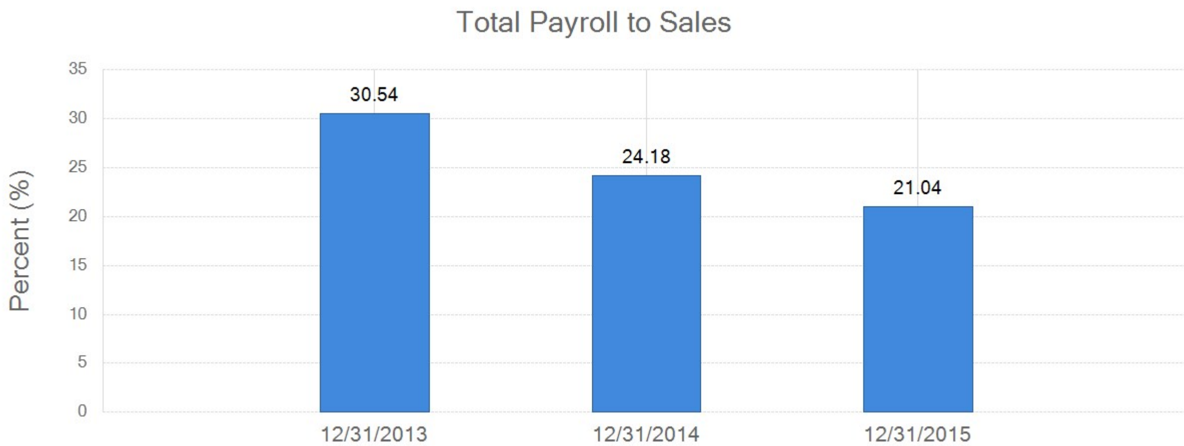
This metric shows advertising expense for the company as a percentage of sales.



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 **84 out of 100**

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

It is interesting that sales have significantly risen at the same time that the employee base has also significantly risen. It is good to see large increases in sales **accompany** the relatively large increases in the employee base, even if the new employees have not directly helped elevate sales. A side observation is that fixed asset levels have stayed approximately the same as they were last period. This means that a larger amount of sales revenue is being generated by each dollar of assets. Finance professionals refer to this as increasing the business's "asset turns," which is a key performance measure in this specific industry. The company is now driving more sales through about the same level of assets, which can help improve profitability over the long run if expenses can be managed.

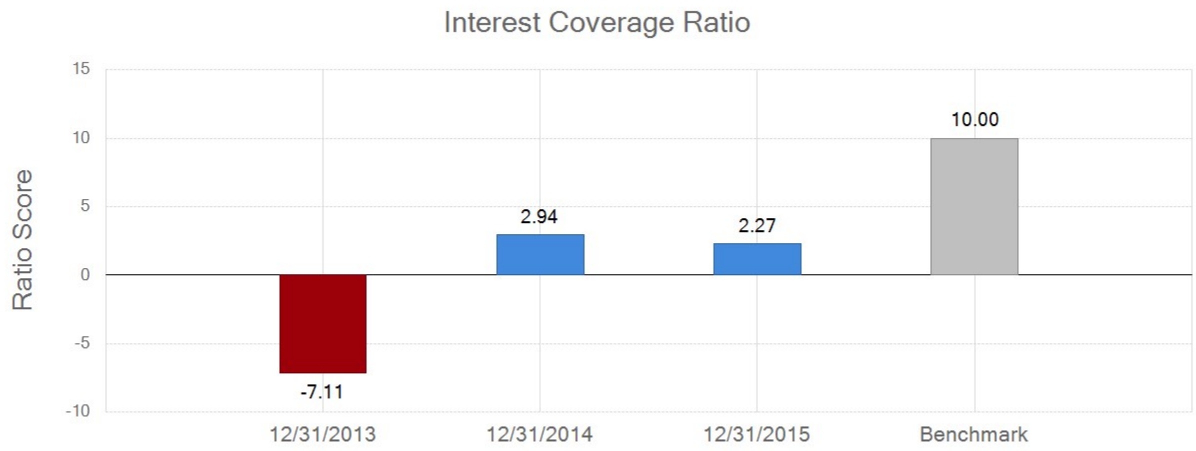
Borrowing **11 out of 100**

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

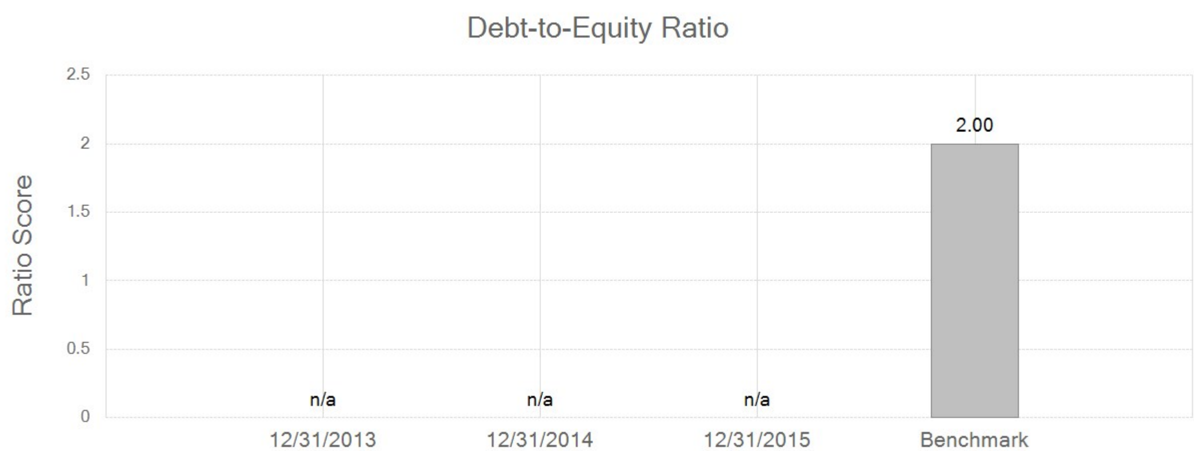
Every company needs to make sure it is borrowing effectively -- using leverage optimally. In this case, significant debt was added, but profitability went down from last period. Although it is possible that the company has invested in some resources that will generate profitability in the future, it 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 34.75% this period, which is not favorable when combined with lower profitability in dollars.

The company seems to be struggling in this area. Notice that the firm’s interest coverage ratio is low and its debt-to-equity ratio is high. This is normally not a good combination, because it generally means a company is having trouble generating enough earnings to cover its high debt obligations. Improvement is needed. This period’s results may be an aberration, but they do indicate a need for some attention since debt levels are relatively high (managers are using debt as a strategic resource).

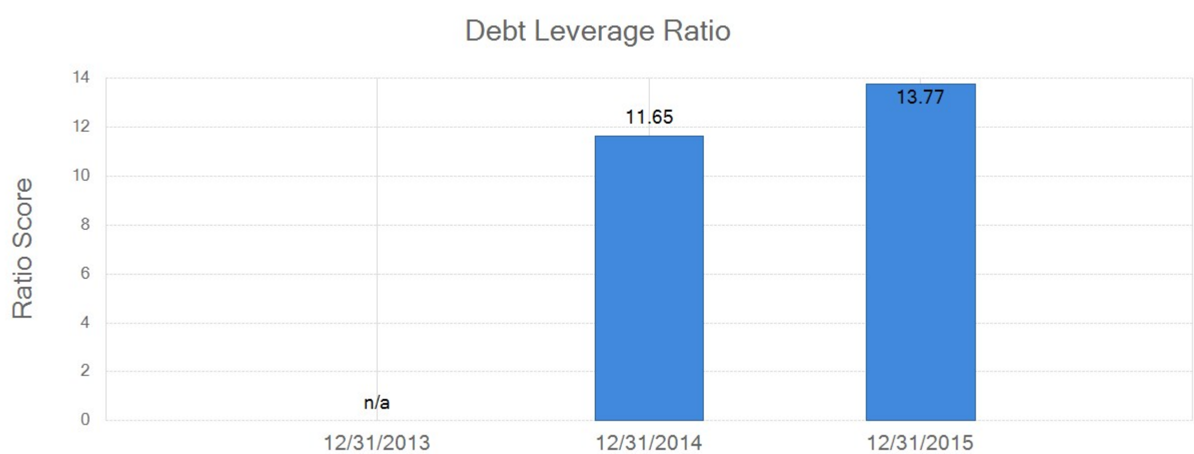
On a general note, it is a good idea to meet with the company's bankers on a regular basis to keep the relationships strong and use them as strategic partners to optimize the company's use of debt.



This 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.



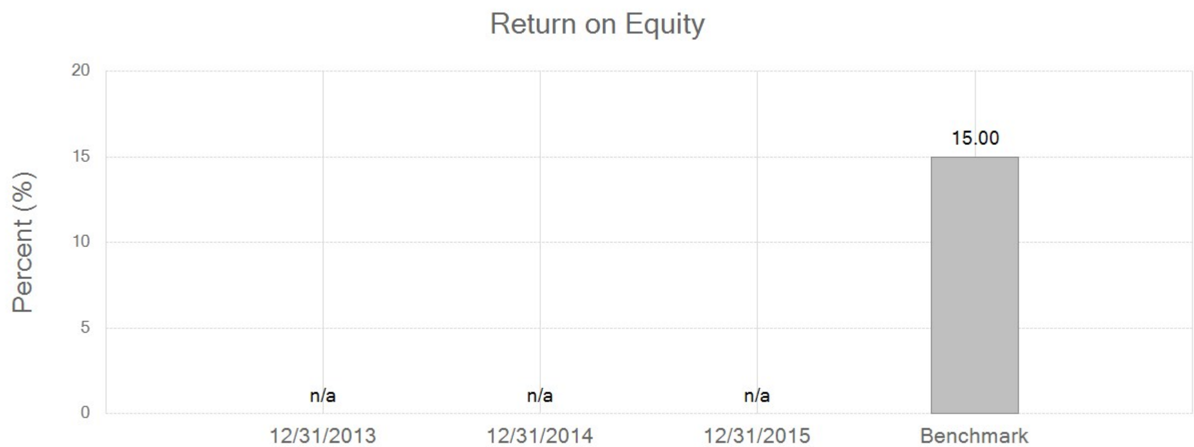
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Assets **33 out of 100**

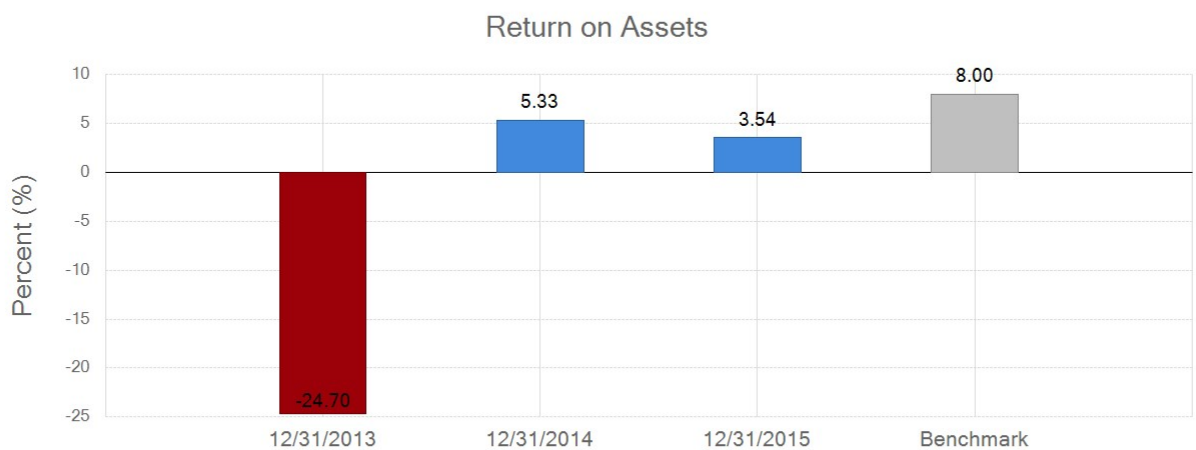
A measure of how effectively the company is utilizing its gross fixed assets.

The results in this area are not very positive. Less profitability is moving through a relatively unchanged fixed asset base, which lowers performance in this area. Another way of saying this is the profitability per asset dollar statistic has fallen. This is not a favorable result, particularly because the net profit margin also fell. This means the company is less efficient in overall operations than it was last period.

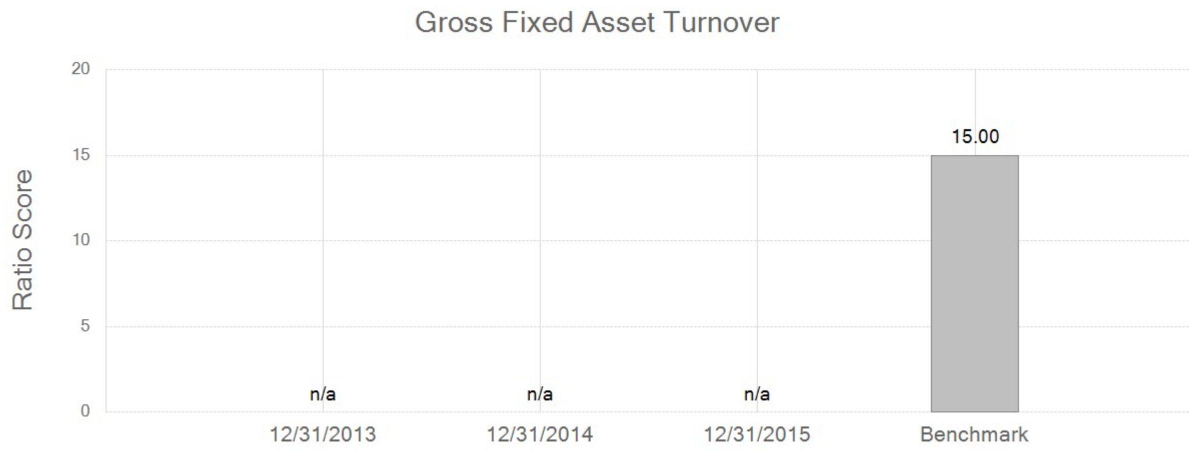
Finally, notice that the company generated a relatively strong return on equity, and a poor return on assets, which is a somewhat unusual result. It may be important for the company to increase its return on assets in subsequent periods, because assets generally represent a cost that the company should turn into a future economic benefit.



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.



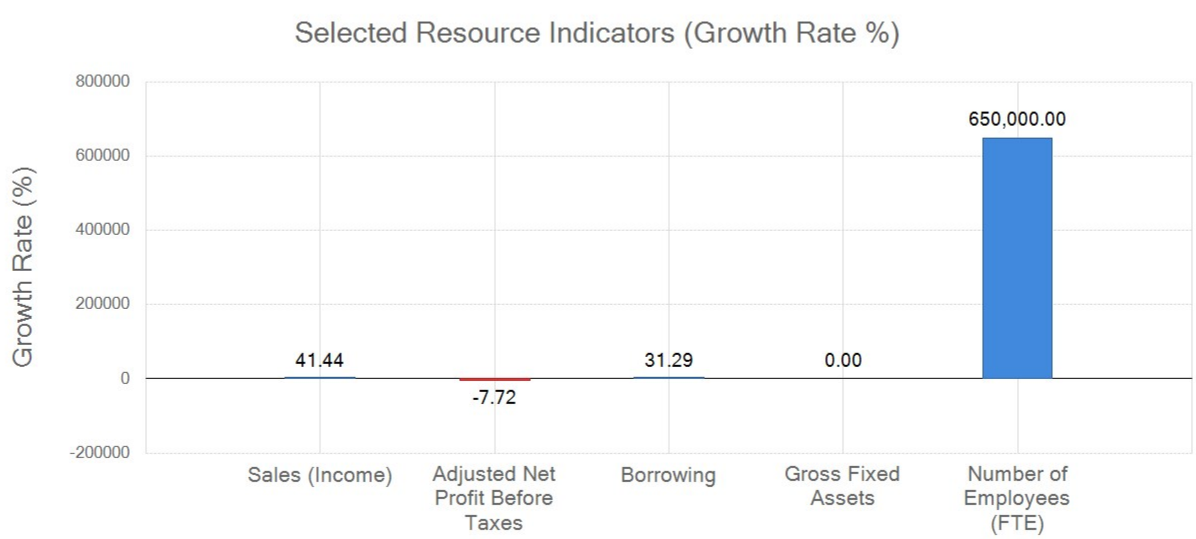
This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize 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.

Employees **19 out of 100**

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

The company has hired significantly more staff, but net profitability has fallen from last period. Companies prefer to see net profitability improve as employees are added. Unless this is a **deliberate strategy** to build the organization by hiring "infrastructure" staff, this is probably a situation that should be avoided. Managers **may** want to limit hiring until net profitability improves, or make sure they are only hiring people who will help improve net profitability. The scope of this analysis is limited, but it is still important to **note** unfavorable results that could threaten the company in the long run.

"Make everything as simple as possible, but not simpler." --- Albert Einstein



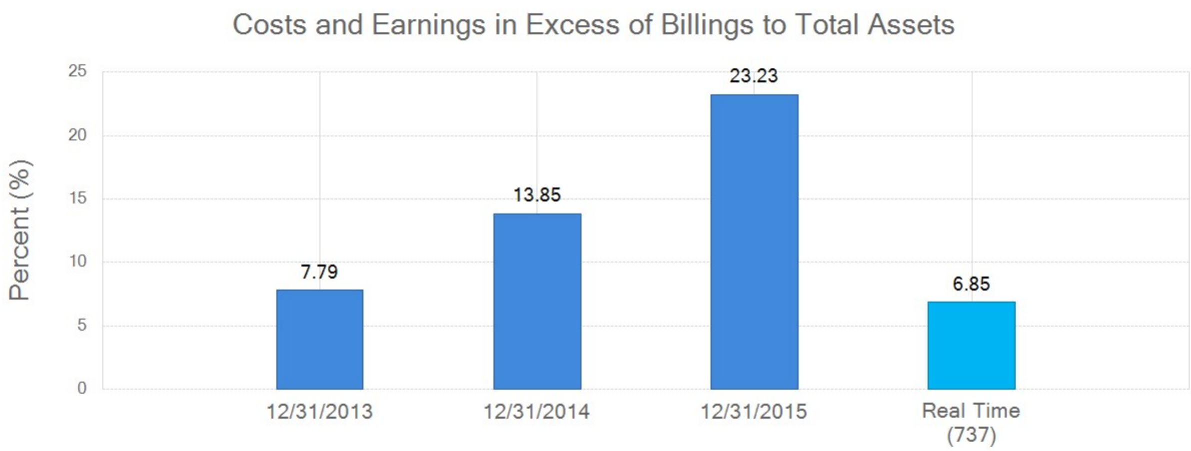
This data is based on the two most recent available periods.

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.

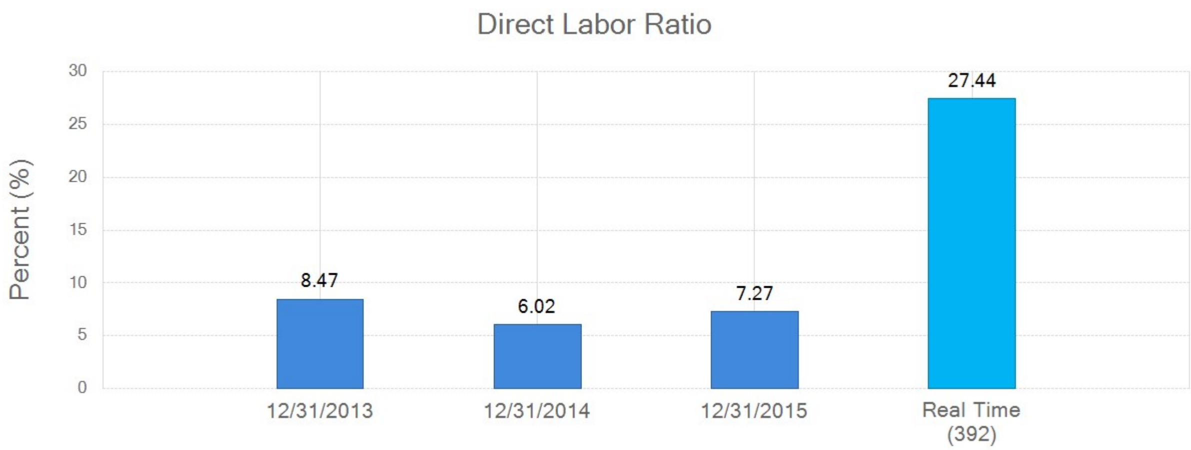
Industry-Specific Performance Ratios

What are the Key Performance Indicators for the business?

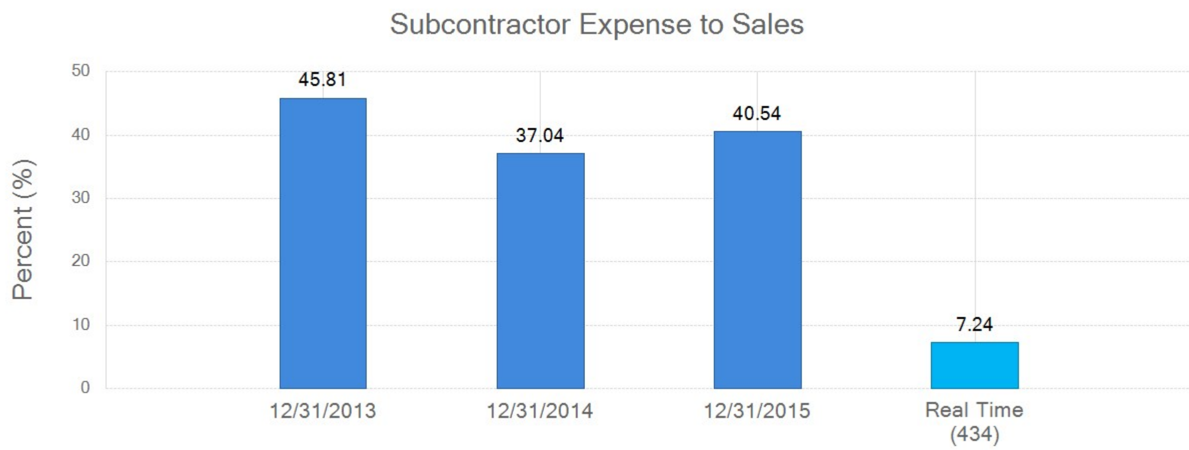
This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve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



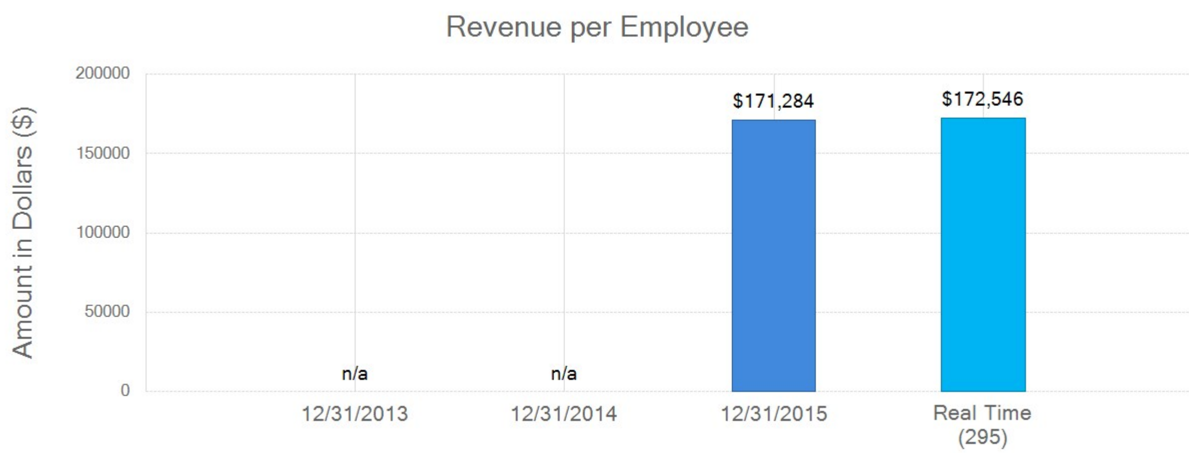
Costs and Earnings in Excess of Billings to Total Assets = Costs and Earnings in Excess of Billings / Total Assets



Direct Labor Ratio = Direct Labor / Sales



Subcontractor Expense to Sales = Subcontractor Expense / Sales



Revenue per Employee = Sales / Employees

Raw Data

Income Statement Data	12/31/2013	12/31/2014	12/31/2015
Sales (Income)	$6,039,527	$7,871,657	$11,133,469
Cost of Sales (COGS)	$4,286,267	$5,236,797	$8,409,422
Depreciation (COGS-related)	$24,279	$27,657	$29,386
Subcontractor Expense	$2,766,642	$2,915,512	$4,513,473
Direct Materials	$706,781	$1,460,744	$2,509,048
Direct Labor	$511,510	$473,876	$809,874
Gross Profit	$1,753,260	$2,634,860	$2,724,047
Gross Profit Margin	29.03%	33.47%	24.47%
Depreciation	$0	$0	$0
Amortization	$0	$0	$0
Overhead or S,G,& A Expenses	$2,320,679	$2,357,797	$2,406,523
G & A Payroll Expense	$1,333,127	$1,429,628	$1,532,276
Rent	$127,874	$130,374	$131,054
Advertising	$23,640	$38,098	$20,960
Other Operating Income	$0	$0	$0
Other Operating Expenses	$0	$0	$0
Operating Profit	($567,419)	$277,063	$317,524
Interest Expense	$74,651	$107,764	$155,117
Other Income	$12,368	$12,414	$17,256
Other Expenses	$0	$0	$11,971
Net Profit Before Taxes	($629,702)	$181,713	$167,692
Adjusted Net Profit Before Taxes	($629,702)	$181,713	$167,692
Net Profit Margin	-10.43%	2.31%	1.51%
EBITDA	($530,772)	$317,134	$352,195
Taxes Paid	$0	$0	$0
Extraordinary Gain	$0	$0	$0
Extraordinary Loss	$0	$0	$0
Net Income	($629,702)	$181,713	$167,692

Balance Sheet Data	12/31/2013	12/31/2014	12/31/2015
Cash (Bank Funds)	$231,896	$257,509	$113,739
Accounts Receivable	$1,928,259	$2,181,583	$3,059,942
Inventory	$25,200	$123,736	$257,851
Other Current Assets	$294,908	$753,399	$1,231,731
Costs and Earnings in Excess of Billings	$198,612	$471,987	$1,098,875
Total Current Assets	$2,480,263	$3,316,227	$4,663,263
Gross Fixed Assets	$0	$0	$0
Accumulated Depreciation	$0	$0	$0
Net Fixed Assets	$67,482	$89,752	$66,152
Gross Intangible Assets	$0	$0	$0
Accumulated Amortization	$0	$0	$0
Net Intangible Assets	$0	$0	$0
Other Assets	$1,200	$1,200	$1,200
Total Assets	$2,548,945	$3,407,179	$4,730,615
Accounts Payable	$487,909	$1,058,210	$862,602
Short Term Debt	$720,000	$1,064,452	$2,095,452
Notes Payable / Current Portion of Long Term Debt	$0	$0	$0
Other Current Liabilities	$586,268	$409,267	$825,143
Billings in Excess of Costs	$0	$0	$0
Total Current Liabilities	$1,794,177	$2,531,929	$3,783,197
Notes Payable / Senior Debt	$1,223,222	$1,161,991	$1,066,467

Notes Payable / Subordinated Debt	$0	$0	$0
Other Long Term Liabilities	$0	$0	$0
Total Long Term Liabilities	$1,223,222	$1,161,991	$1,066,467
Total Liabilities	$3,017,399	$3,693,920	$4,849,664
Preferred Stock	$0	$0	$0
Common Stock	$0	$0	$0
Additional Paid-in Capital	$0	$0	$0
Other Stock / Equity	($468,454)	($286,741)	($119,049)
Ending Retained Earnings	$0	$0	$0
Total Equity	($468,454)	($286,741)	($119,049)
Total Liabilities + Equity	$2,548,945	$3,407,179	$4,730,615
Number of Employees (FTE)	0.0	0.0	65.0

Common Size Statements

Income Statement Data	12/31/2013	12/31/2014	12/31/2015	Industry* (3266)
Sales (Income)	100%	100%	100%	100%
Cost of Sales (COGS)	71%	67%	76%	80%
Depreciation (COGS-related)	0%	0%	0%	1%
Subcontractor Expense	46%	37%	41%	7%
Direct Materials	12%	19%	23%	37%
Direct Labor	8%	6%	7%	27%
Gross Profit	29%	33%	24%	20%
Depreciation	0%	0%	0%	1%
Amortization	0%	0%	0%	0%
Overhead or S,G,& A Expenses	38%	30%	22%	13%
G & A Payroll Expense	22%	18%	14%	9%
Rent	2%	2%	1%	1%
Advertising	0%	0%	0%	0%
Other Operating Income	0%	0%	0%	0%
Other Operating Expenses	0%	0%	0%	1%
Operating Profit	-9%	4%	3%	5%
Interest Expense	1%	1%	1%	0%
Other Income	0%	0%	0%	0%
Other Expenses	0%	0%	0%	0%
Net Profit Before Taxes	-10%	2%	2%	4%
Adjusted Net Profit Before Taxes	-10%	2%	2%	4%
EBITDA	-9%	4%	3%	5%
Taxes Paid	0%	0%	0%	1%
Extraordinary Gain	0%	0%	0%	0%
Extraordinary Loss	0%	0%	0%	0%
Net Income	-10%	2%	2%	3%

Balance Sheet Data	12/31/2013	12/31/2014	12/31/2015	Industry* (3266)
Cash (Bank Funds)	9%	8%	2%	12%
Accounts Receivable	76%	64%	65%	56%
Inventory	1%	4%	5%	2%
Other Current Assets	12%	22%	26%	9%
Costs and Earnings in Excess of Billings	8%	14%	23%	7%
Total Current Assets	97%	97%	99%	83%
Gross Fixed Assets	0%	0%	0%	33%
Accumulated Depreciation	0%	0%	0%	19%
Net Fixed Assets	3%	3%	1%	14%
Gross Intangible Assets	0%	0%	0%	0%
Accumulated Amortization	0%	0%	0%	0%
Net Intangible Assets	0%	0%	0%	0%
Other Assets	0%	0%	0%	4%
Total Assets	100%	100%	100%	100%
Accounts Payable	19%	31%	18%	23%
Short Term Debt	28%	31%	44%	0%
Notes Payable / Current Portion of Long Term Debt	0%	0%	0%	2%
Other Current Liabilities	23%	12%	17%	20%
Billings in Excess of Costs	0%	0%	0%	11%
Total Current Liabilities	70%	74%	80%	50%
Notes Payable / Senior Debt	48%	34%	23%	3%
Notes Payable / Subordinated Debt	0%	0%	0%	0%

Other Long Term Liabilities	0%	0%	0%	1%
Total Long Term Liabilities	48%	34%	23%	10%
Total Liabilities	118%	108%	103%	61%
Preferred Stock	0%	0%	0%	0%
Common Stock	0%	0%	0%	1%
Additional Paid-in Capital	0%	0%	0%	1%
Other Stock / Equity	-18%	-8%	-3%	1%
Ending Retained Earnings	0%	0%	0%	36%
Total Equity	-18%	-8%	-3%	39%
Total Liabilities + Equity	100%	100%	100%	100%

*The industry common size figures shown above were taken from all private company data for companies with industry code 238210 for all years in all areas with yearly sales $10 million to $50 million.

Industry Scorecard

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities **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.	1.23	1.50 to 2.40	-18.00%
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities **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.	0.84	1.00 to 2.00	-16.00%
Net Profit Margin = Adjusted Net Profit before Taxes / Sales **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.	1.51%	1.00% to 6.00%	0.00%
Interest Coverage Ratio = EBITDA / Interest Expense **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.	2.27	5.00 to 15.00	-54.60%
Debt-to-Equity Ratio = 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.	--	1.00 to 3.00	--
Return on Equity = 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.	--	8.00% to 22.00%	--
Return on Assets = 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.	3.54%	6.00% to 10.00%	-41.00%
Gross Fixed Asset Turnover = 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 ratio, the more effective the company's investments in Net Property, Plant, and Equipment are.	--	10.00 to 20.00	--
Gross Profit Margin = Gross Profit / Sales	24.47%	15.00% to 25.00%	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	13.77	--	--

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

Advertising to Sales = Advertising / Sales	0.19%	0.10% to 0.70%	0.00%

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

Rent to Sales = Rent / Sales	1.18%	0.75% to 2.80%	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	13.76%	10.00% to 22.50%	0.00%

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	21.04%	--	--

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

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.).