Industry Comparative Report

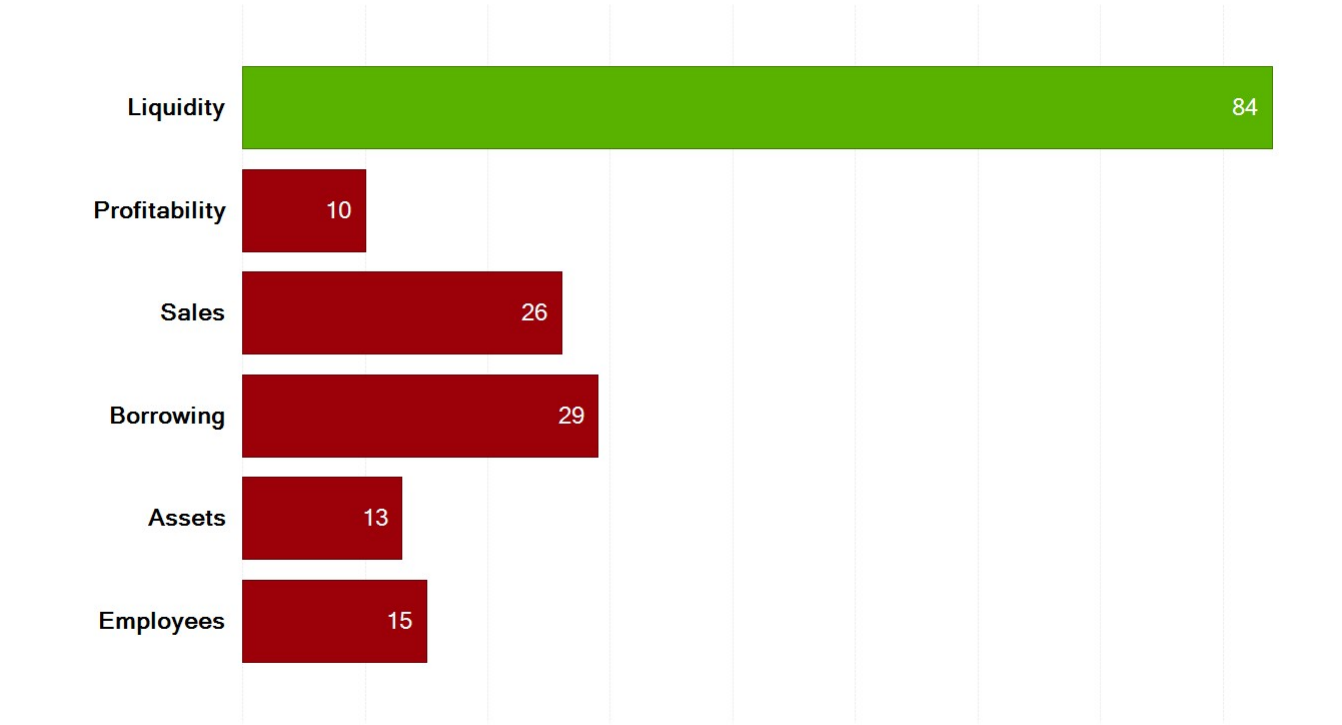
Real Distributor Company

Provided By

Narrative Report

Industry: 423840 - Industrial Supplies Merchant Wholesalers
Revenue: $10M - $50M
Periods: 12 months against the same 12 months from the previous year

Report Summary



Liquidity 84 out of 100

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

Operating Cash Flow Results

The company's operating cash flow is down relative to sales this period, although it remains at a moderate level. This may not be cause for too much concern, as overall liquidity results are still quite strong (this will be discussed in more depth below). However, it may be helpful to monitor future profit and cash flow results.

General Liquidity Conditions

The company's liquidity position has decreased from last period, possibly due in part to the unprofitable period that was experienced. Although **liquidity still looks quite good**, losses on the Income Statement side of the business will generally decrease liquidity performance. Profits (or losses) direct long-term liquidity over time.

For this company, both the breadth and the composition of the liquidity base have fallen this period. For example, notice in the graph area of the report that both the current ratio and the quick ratio have fallen. These are two of the major benchmarks used to evaluate the liquidity position. They are not perfect predictors of an ability to pay bills, but they are good general calibration tools used to tell how the company is doing. It's important to note that, while these key statistics are not predictive, the scores in this area are determined by comparing the company's data to other similar companies.

Remember that liquidity is a volatile condition generally. Net profit losses can quickly erode even an excellent position.

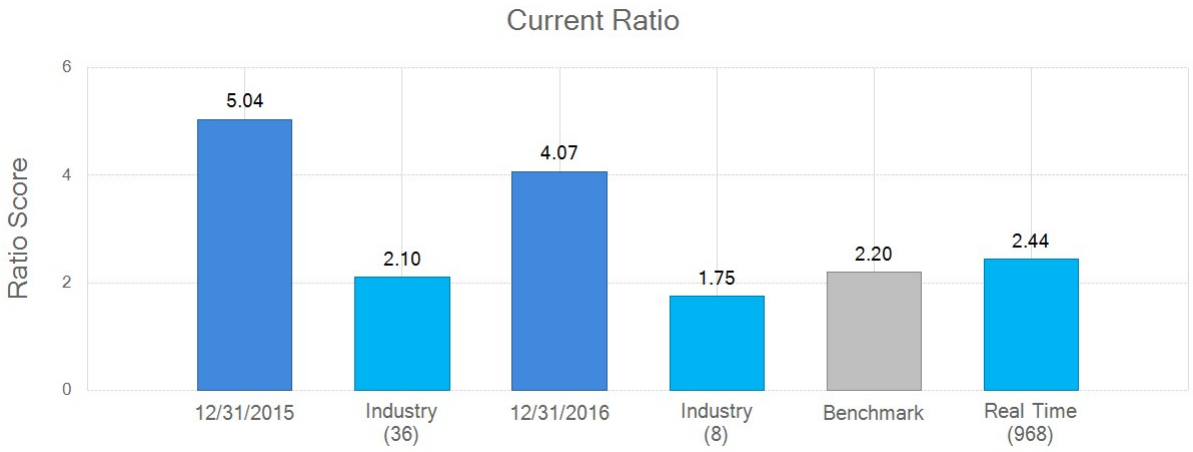
The company is doing a good job with its liquidity turnover ratios. Both inventory days and accounts payable days are relatively low compared to other companies in this industry. Creditors like to see a low accounts payable days number (over time, it reflects payment strength); and the low inventory days ratio indicates that the company is doing a good job in "turning" its inventory.

Tips For Improvement

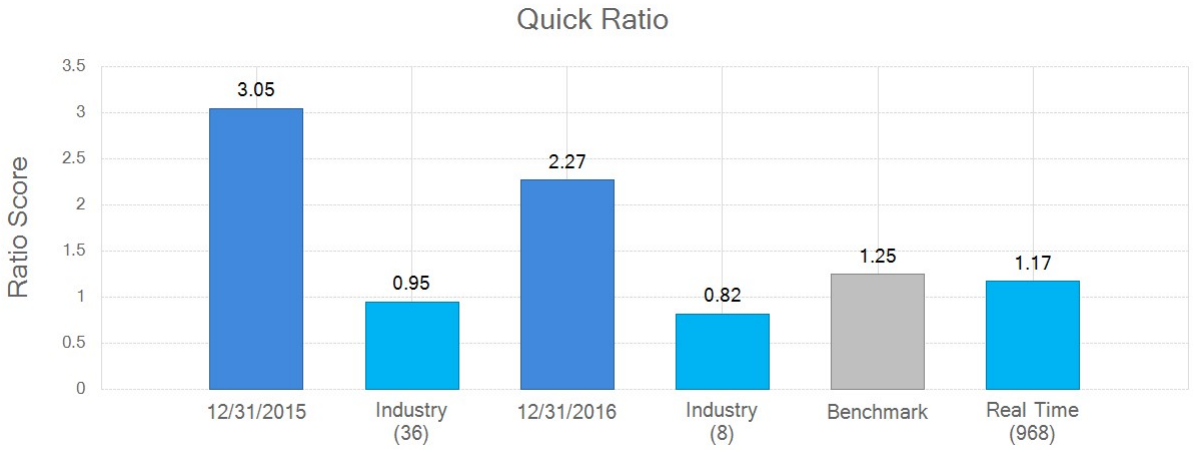
Liquidity is a challenge that is never solved. Managers might possibly consider the following actions to maintain or improve conditions over time:

- Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- Set longer terms for Accounts Payable when possible. For example, increase a 30 day payment window to 60 days.
- Rent rather than buy resources where appropriate. In the long term, this can help achieve an acceptable level of Balance Sheet obligations relative to liquid assets. Current Balance Sheet obligations (such as debt on purchased assets) are uses of cash.
- Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice. This will extend Accounts Receivable and hurt cash flow.

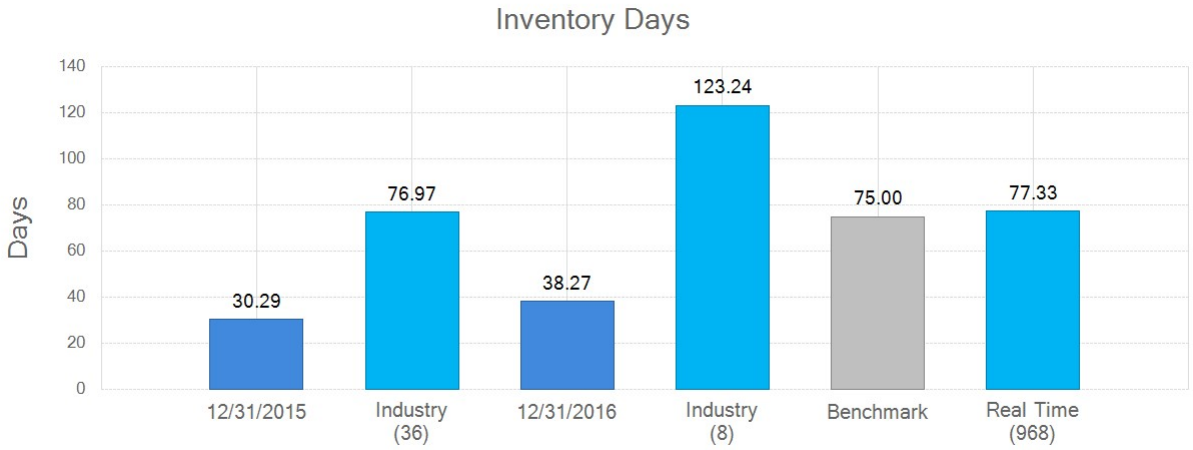
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



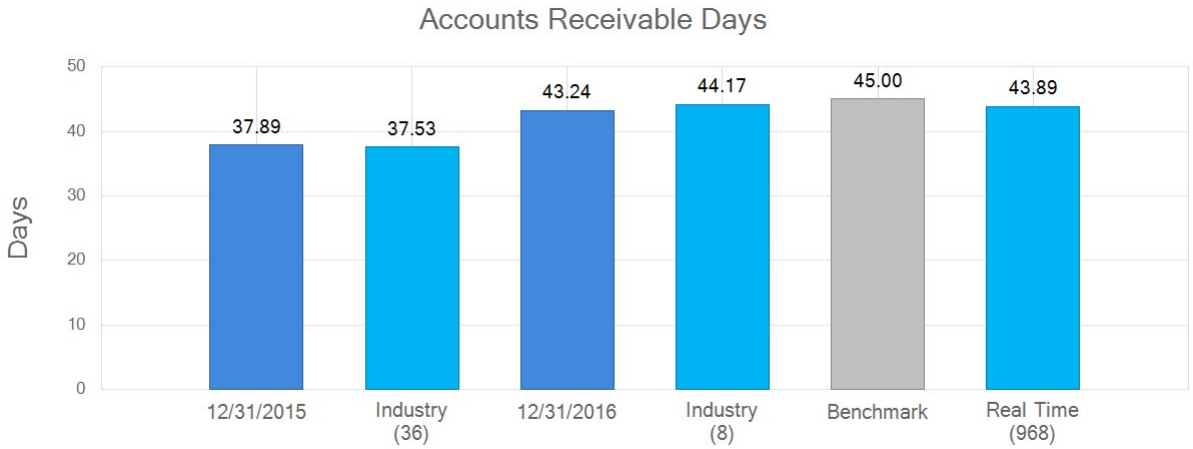
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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



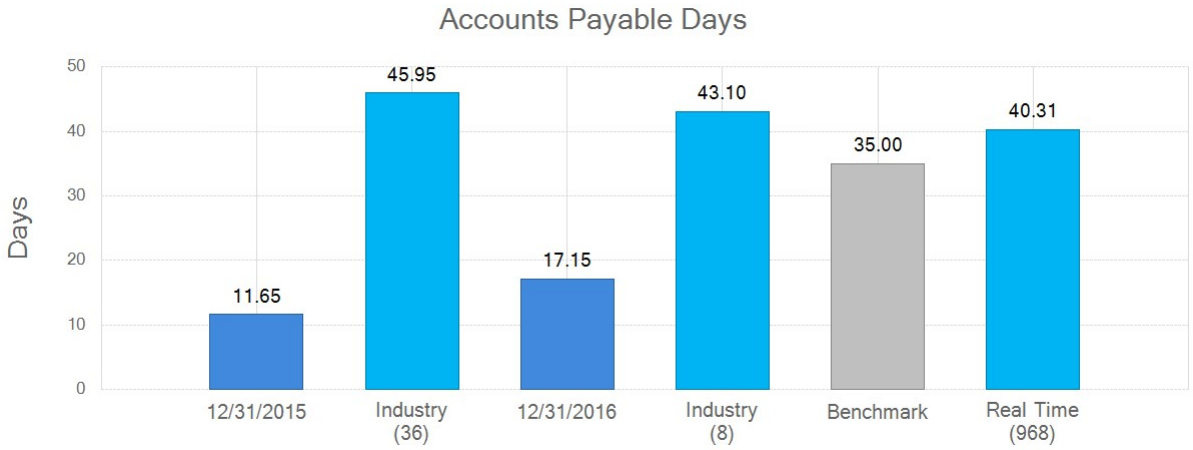
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the 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 10 out of 100

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

This company has had rather weak results in this area. In fact, all major Income Statement components are moving down. This includes sales, gross profits, net profitability, and net profit margins.

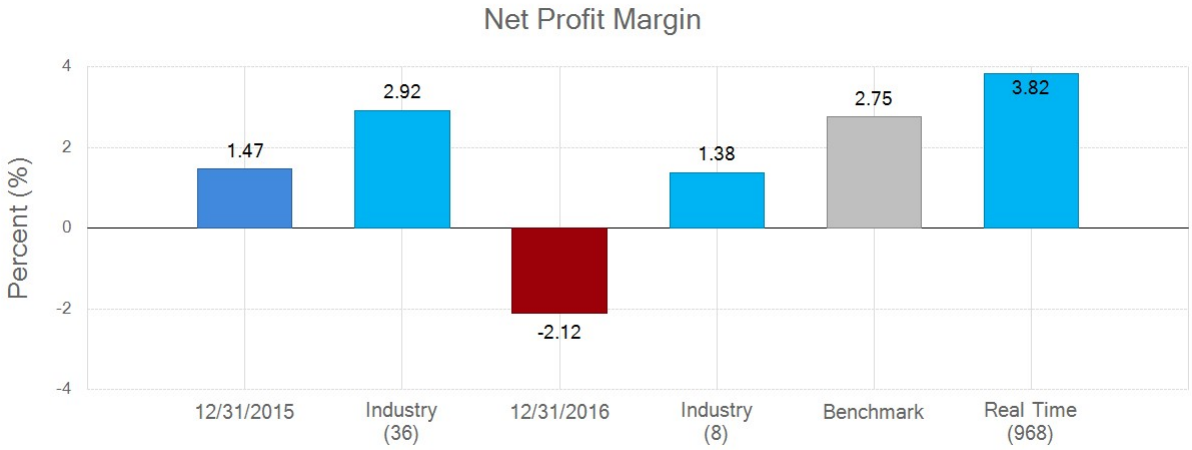
Currently, net profitability is even low when compared to what other similar companies are generating. It would be difficult to stay viable on this level of performance for an extended time period. This is particularly true if net margins continue to float down at this point. Although it is generally acceptable to see some loss of net profit dollars, it may be concerning to see lower net margins -- they measure a company's overall health.

Gross margins have also slipped by 9.85% from last period. It is important to manage sales more effectively when they fall. The logic is that the company has to make up for sales declines with better management of direct costs (costs of sales). Conversely, this company's results indicate that costs of sales rose relative to the fewer sales dollars.

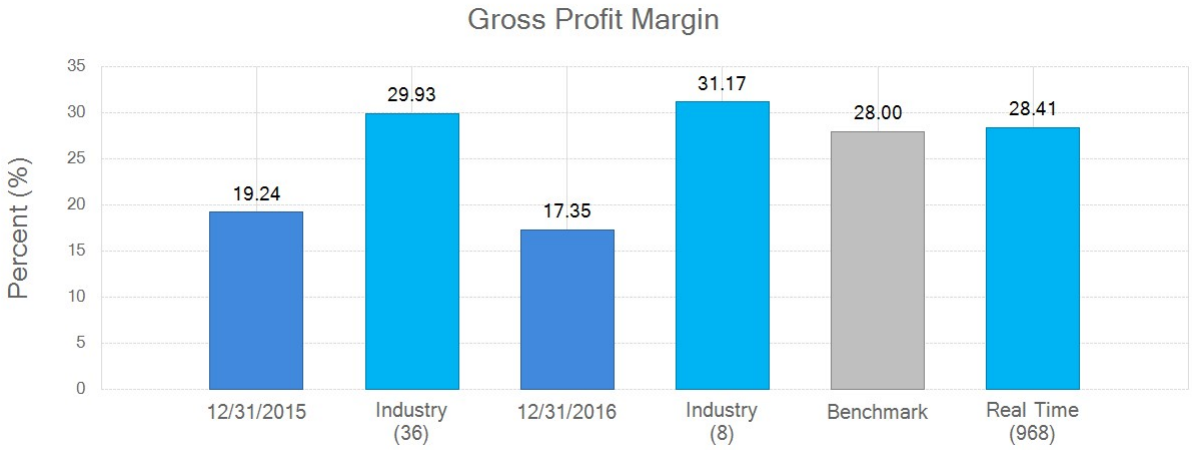
Tips For Improvement

Given results in this area of the report, managers might consider the following to improve performance over time (if any are feasible and appropriate):

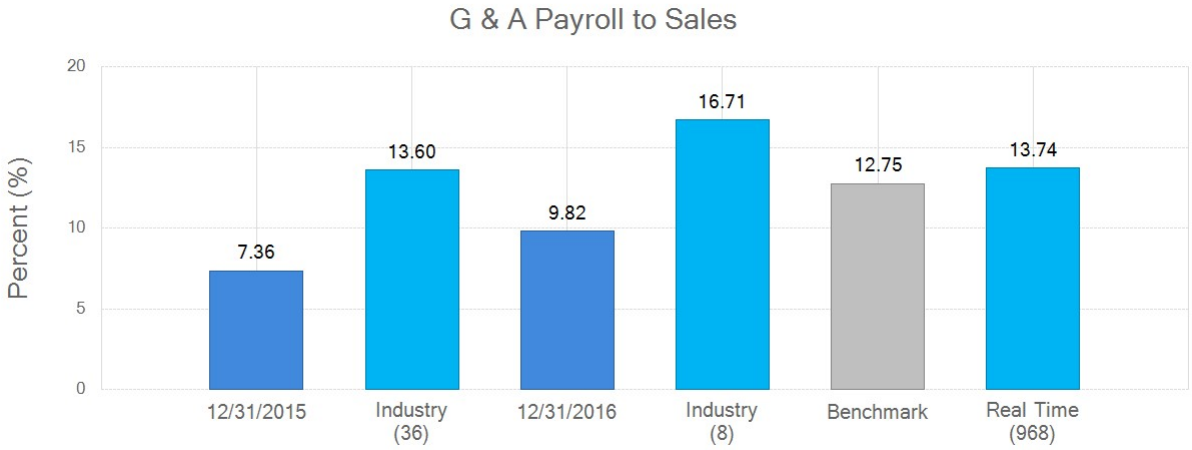
- Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.
- Enroll the business in the right insurance program at a good cost. Evaluate alternative insurance carriers that may be able to serve the business at a cheaper cost.
- Obtain internal reports that identify the business's key performance indicators (KPIs). KPIs help managers make good decisions by identifying the figures that are critical to performance.
- Use industry experts and consultants to help you improve your business. This is particularly helpful if you feel like you want to concurrently keep and get more customers.



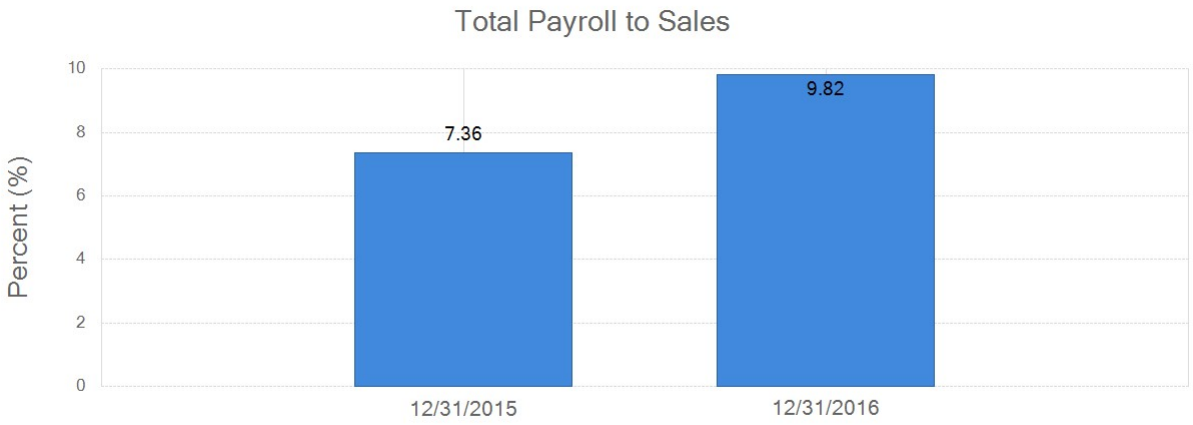
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. 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 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 26 out of 100

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

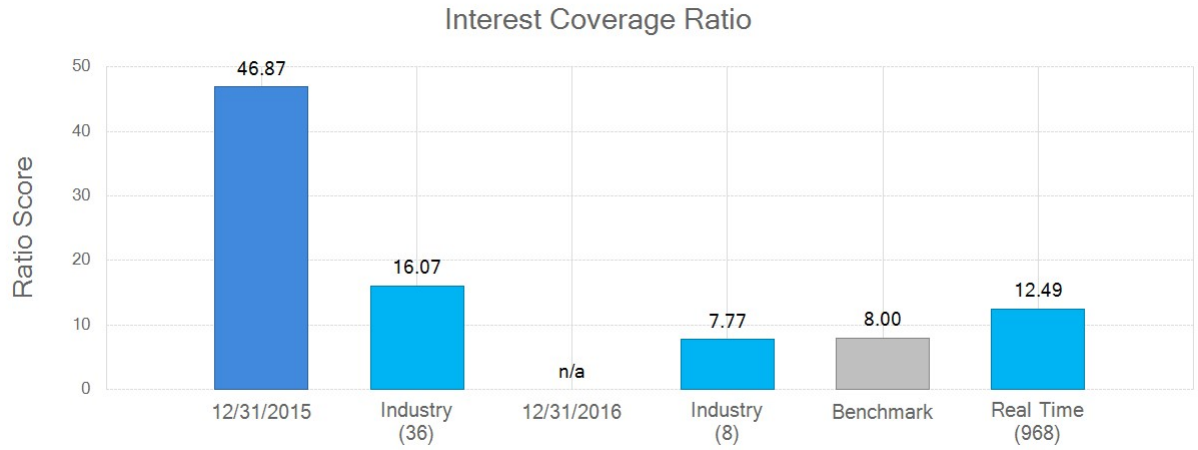
The company's sales have fallen this period, while fixed assets remained relatively stable. This dynamic could negatively affect net profitability if sales continue to fall in the future. Typically, companies want to see revenue increasing over time; this is true because the cost of business continually increases, no matter what the inflation rate is. Of course, as mentioned in the previous section, managers will want to look for longer-term results in this area -- profitability is more important than sales generally.

Borrowing 29 out of 100

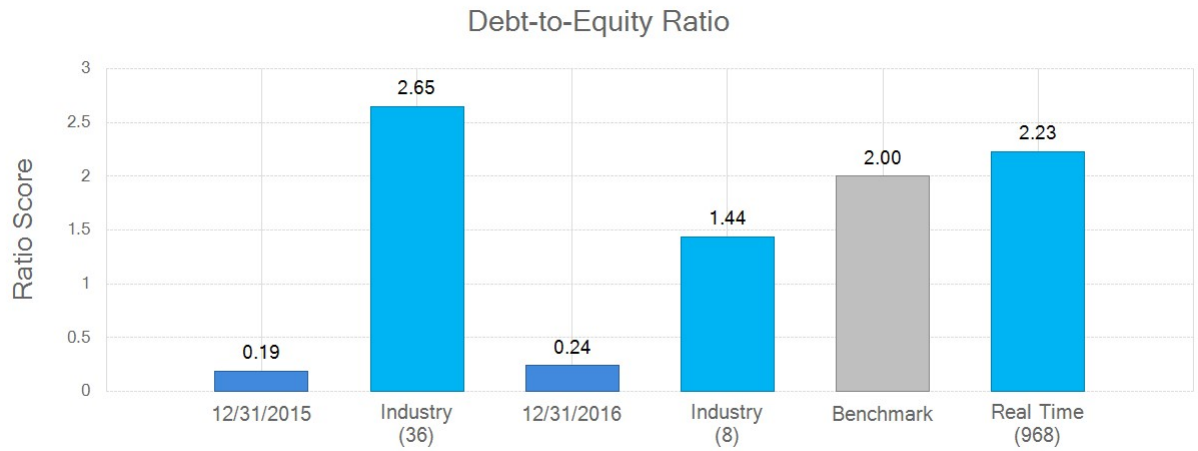
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

The results in this area are rather soft. The company added debt to the books but net profitability, net margins, and overall liquidity are down from last period. When unfavorable changes occur, it is important to stop their progression quickly. If the company continues to lose profitability position over the long term, it may help to move the debt load lower, perhaps by eliminating some underproductive assets that are presently financed, if appropriate. It is also important to watch overall liquidity and net profit margins closely -- these are typically important barometers for determining whether the company should consider contracting assets or reducing debt load in the future.

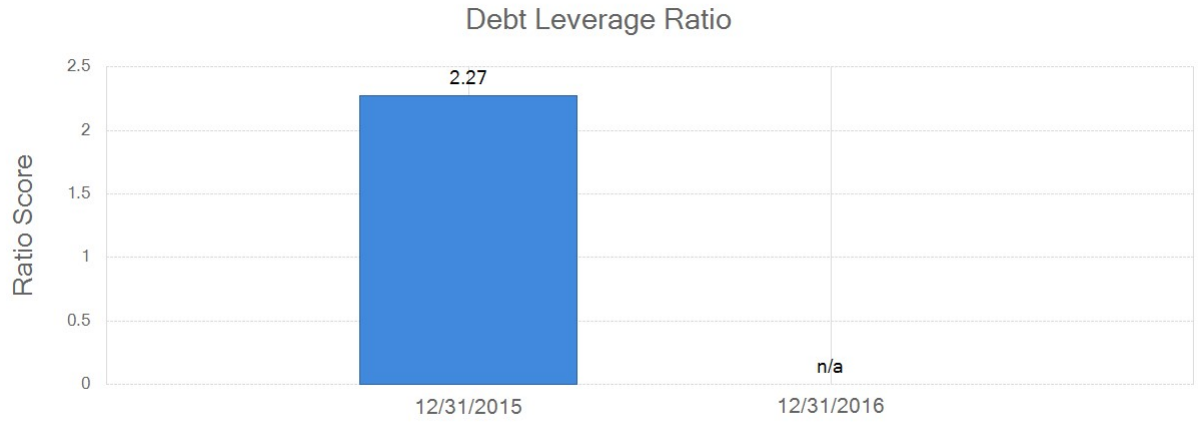
It should also be noted that debt is not a significant part of this company's Balance Sheet. The company's debt-to-equity ratio is low, even when compared to the competition. Therefore, in general, performance in this area should not be emphasized too much when assessing overall financial health.



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.



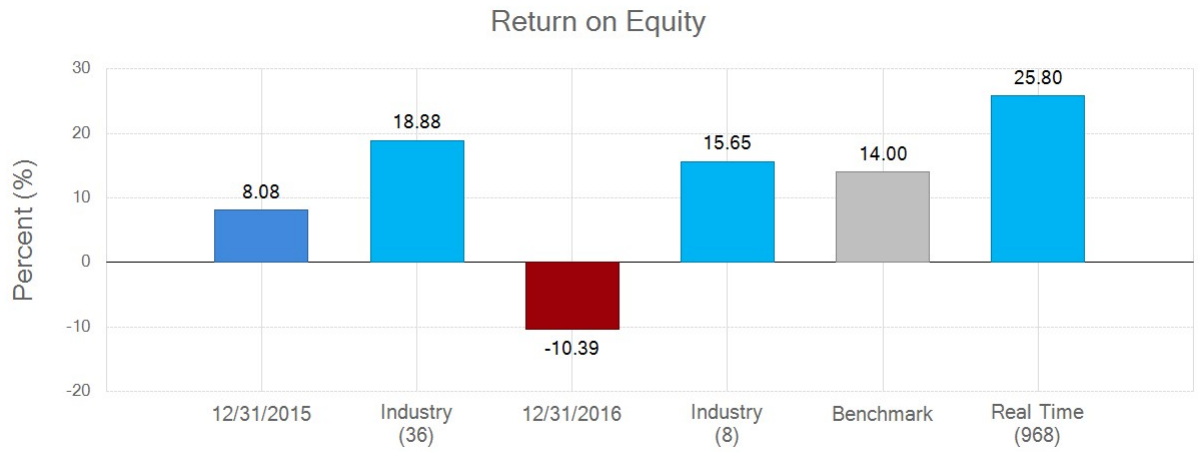
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Assets **13 out of 100**

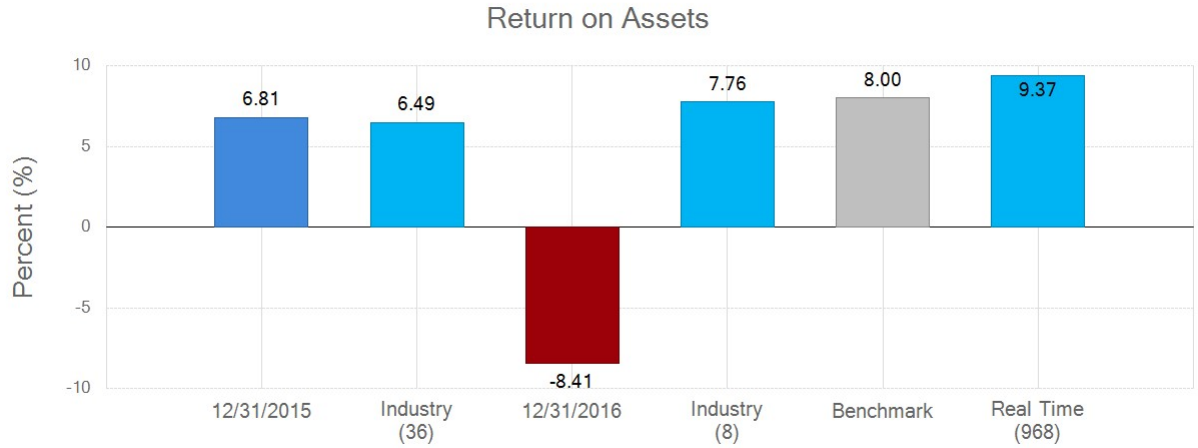
A measure of how effectively the company is utilizing its gross fixed assets.

The fixed asset base has remained relatively the same this period, but net profitability is down. This indicates that the assets in place are less efficient than last period -- lower profitability is moving through these assets. This is a sign of poor asset management. The drop in overall liquidity and net margins also support this idea. The company was inefficient in regard to its assets as well as its overall operations, which is a situation the company does not want to turn into a long-term trend.

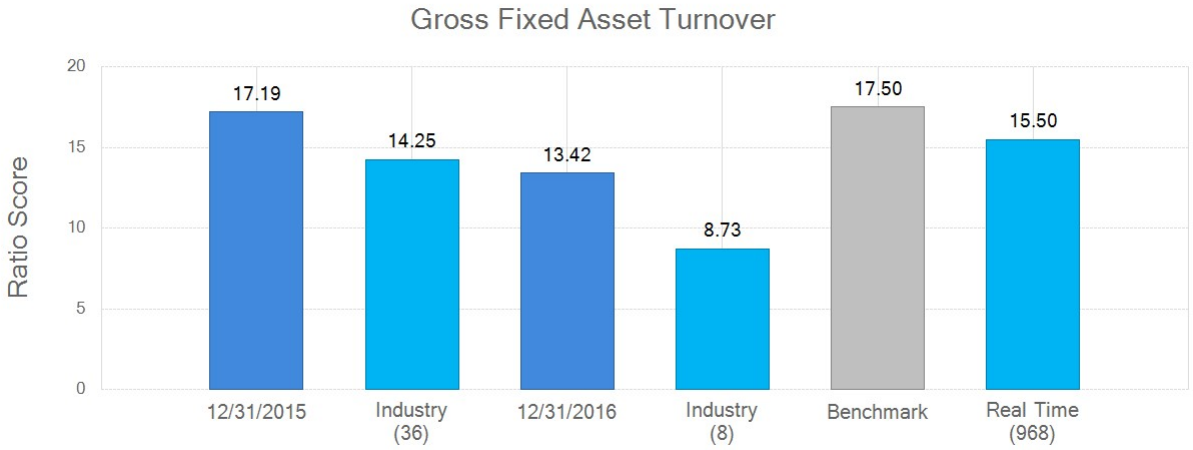
The company seems to be doing a poor job of managing its assets. Notice that the company generated a relatively poor return on assets and equity this period, which is a negative result for investors and creditors. It may be important for the company to improve this area in the future, because assets generally are costs that the company expects to get monetary benefit from.



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.



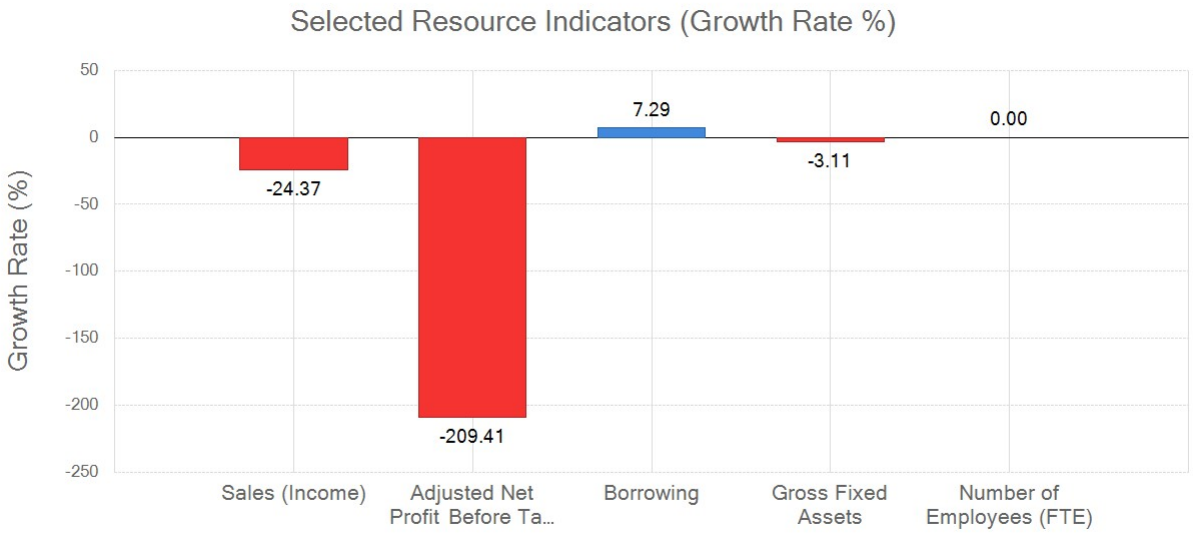
This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize 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 15 out of 100

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

This company's employee levels have stayed relatively the same, but net profitability has decreased this period. The company is now generating a lower level of profitability per employee, which is a key performance indicator for this industry. Of course, these are observations based upon limited data, but managers still need to make a note of this potentially negative trend. **Over the long run,** resources such as employees should lever higher multiples of profitability for the company.

"Well done is better than well said." -- Benjamin Franklin



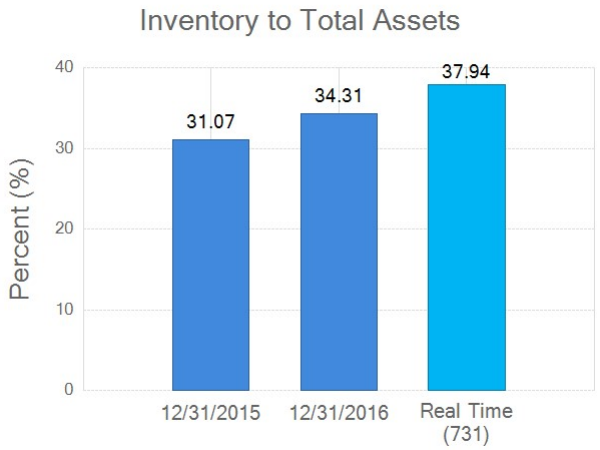
This data is based on the two most recent available periods.

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.

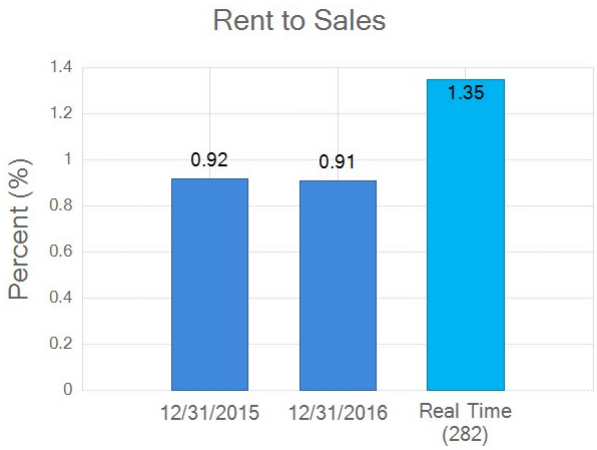
Industry-Specific Performance Ratios

What are the Key Performance Indicators for the business?

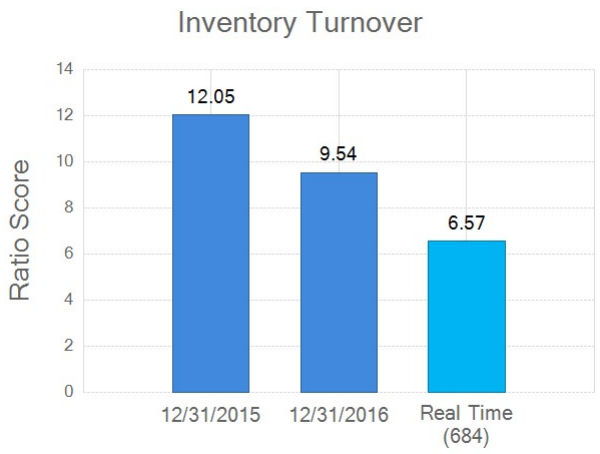
This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve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



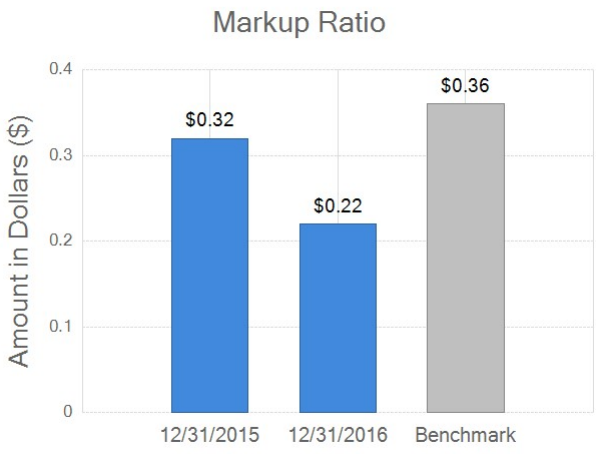
Inventory to Total Assets = Inventory / Total Assets



Rent to Sales = Rent / Sales

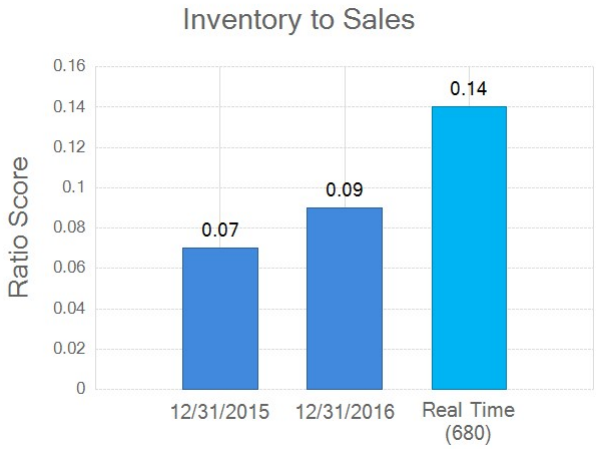


Inventory Turnover = Cost Of Sales / Inventory

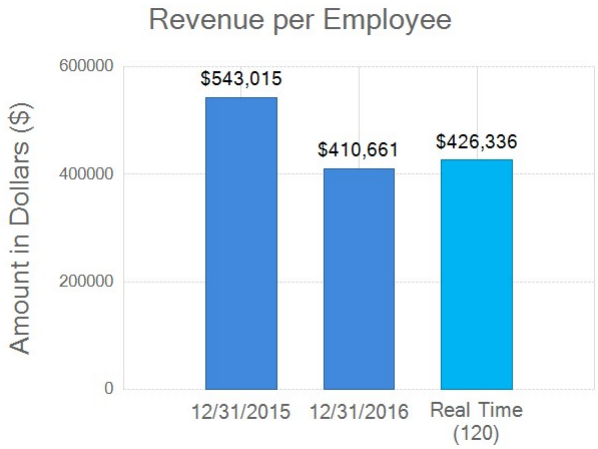


Markup Ratio = (Sales - Purchases for Resale) / Purchases for Resale

Gross Profit Return on Inventory = Gross Profit / Inventory



Inventory to Sales = Inventory / Sales



Revenue per Employee = Sales / Employees

Common Size Statements

Income Statement Data	12/31/2015	12/31/2016	Industry* (968)
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	81%	83%	72%
Depreciation (COGS-related)	0%	0%	1%
Purchases for Resale	76%	82%	51%
Direct Materials	0%	0%	69%
Direct Labor	0%	0%	8%
Rebates & Discounts	N/A	N/A	--
Gross Profit	19%	17%	28%
Depreciation	0%	0%	1%
Amortization	0%	0%	0%
Overhead or S,G,& A Expenses	16%	19%	23%
G & A Payroll Expense	7%	10%	14%
Rent	1%	1%	1%
Advertising	0%	0%	0%
Distribution Expense	2%	2%	3%
Other Operating Income	0%	0%	0%
Other Operating Expenses	0%	0%	1%
Operating Profit	3%	-2%	4%
Interest Expense	0%	0%	1%
Other Income	0%	0%	0%
Gain from sale of property	0%	0%	--
Other	0%	0%	--
Other Expenses	2%	0%	0%
Amortization of Goodwill	2%	0%	--
Net Profit Before Taxes	1%	-2%	4%
Adjusted Net Profit Before Taxes	1%	-2%	4%
EBITDA	1%	-2%	5%
Taxes Paid	0%	0%	1%
Extraordinary Gain	0%	0%	0%
Extraordinary Loss	0%	0%	0%
Net Income	1%	-2%	3%

Balance Sheet Data	12/31/2015	12/31/2016	Industry* (968)
Cash (Bank Funds)	0%	-3%	5%
Accounts Receivable	48%	47%	34%
Allowance for Doubtful Accounts	N/A	N/A	0%
Inventory	31%	34%	39%
Other Current Assets	0%	0%	2%
Total Current Assets	80%	78%	83%
Gross Fixed Assets	27%	30%	31%
Accumulated Depreciation	22%	24%	18%
Net Fixed Assets	5%	5%	14%
Gross Intangible Assets	38%	42%	0%
Accumulated Amortization	23%	25%	0%
Net Intangible Assets	15%	17%	0%
Other Assets	0%	0%	3%

Total Assets	100%	100%	100%
Accounts Payable	12%	15%	23%
Short Term Debt	0%	1%	1%
Notes Payable / Current Portion of Long Term Debt	0%	0%	2%
Other Current Liabilities	4%	3%	12%
Total Current Liabilities	16%	19%	49%
Notes Payable / Senior Debt	0%	0%	6%
Notes Payable / Subordinated Debt	0%	0%	0%
Other Long Term Liabilities	0%	0%	2%
Total Long Term Liabilities	0%	0%	13%
Total Liabilities	16%	19%	62%
Preferred Stock	0%	0%	0%
Common Stock	0%	0%	0%
Additional Paid-in Capital	0%	0%	1%
Other Stock / Equity	0%	-498%	1%
Ending Retained Earnings	84%	579%	31%
Total Equity	84%	81%	38%
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 423840 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	4.07	1.60 to 2.80	+45.36%
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	2.27	0.80 to 1.70	+33.53%
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.			
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	-2.12%	0.50% to 5.00%	-524.00%
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.			
Inventory Days = (Inventory / COGS) * 365	38.27 Days	60.00 to 90.00 Days	+36.22%
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	43.24 Days	30.00 to 60.00 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.			
Accounts Payable Days = (Accounts Payable / COGS) * 365	17.15 Days	20.00 to 50.00 Days	+14.25%
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.			
Interest Coverage Ratio = EBITDA / Interest Expense	--	4.00 to 12.00	--
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	0.24	1.00 to 3.00	+76.00%
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.			
Return on Equity = Net Income / Total Equity	-10.39%	8.00% to 20.00%	-229.88%
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	-8.41%	6.00% to 10.00%	-240.17%

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.

Gross Fixed Asset Turnover = Sales / Gross Fixed Assets	13.42	10.00 to 25.00	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	17.35%	24.00% to 32.00%	-27.71%

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	--	--	--

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

G & A Payroll to Sales = G & A Payroll Expense / Sales	9.82%	8.00% to 17.50%	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	9.82%	--	--

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.).