Industry Comparative Report

Real Engineering Company

Provided By

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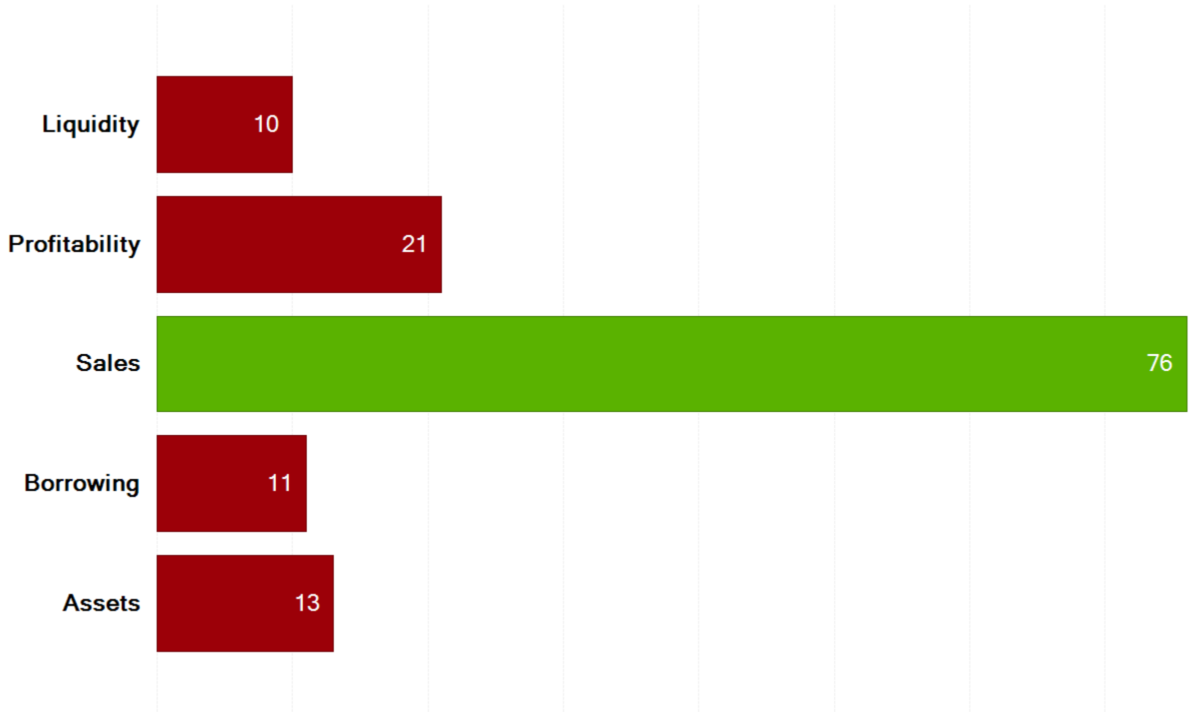
SINCE 1987

Financial Score

Real Engineering Company Narrative Report

Industry: 541330 - Engineering Services
Revenue: $1M - $10M
Periods: 12 months against the same 12 months from the previous year

Report Summary



Liquidity 10 out of 100

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

Operating Cash Flow Results
The company has negative cash flow from operations and poor profitability for the period, which takes into account both major Balance Sheet and Income Statement transactions. Given overall liquidity conditions, as will be discussed below, it seems like the company may have some real difficulty for the period. It may be necessary to more effectively manage both the Income Statement (by increasing revenue and decreasing costs) and the Balance Sheet (by increasing current asset accounts and keeping current liabilities in line).

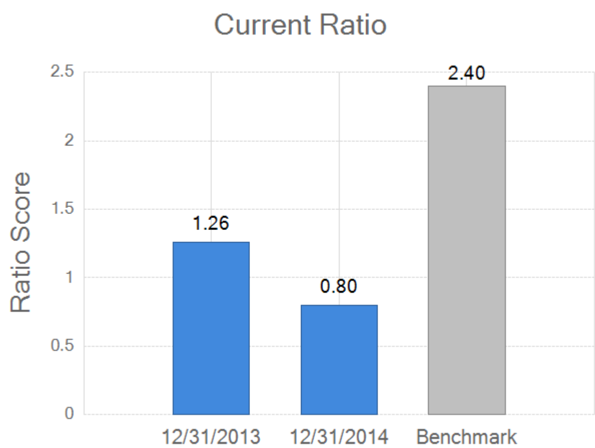
General Liquidity Conditions
Liquidity has decreased in all major areas from last period. Specifically, this means that the company may not have enough money invested in overall current asset accounts relative to short-term obligations. Generally, the company also does not seem to have enough money invested specifically in cash and near-cash accounts. For example, notice in the graph area of the report that both the current ratio and the quick ratio have fallen from last period ***and*** are below average as compared to the competition. All of this **could** make it difficult to

meet obligations over the long run.

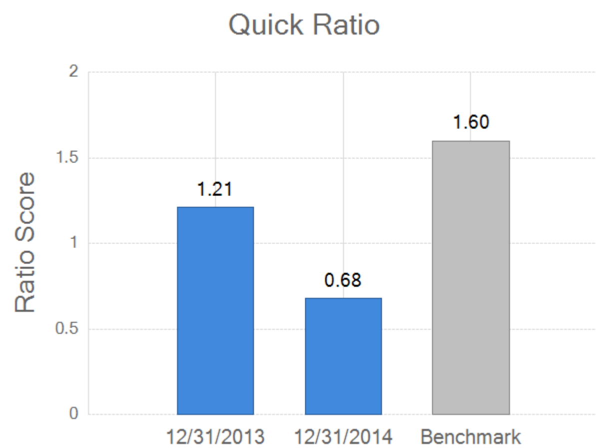
It may be difficult to boost liquidity results if the company continues to generate net profit losses on the Income Statement. Profits "fund" liquid accounts on the Balance Sheet. As we will discuss in the next area, the company may need to boost profit performance over time. In the absence of outside funding, profits allow the company to fund operations.

Despite the softness in overall liquidity, the company seems to be keeping turnover ratios in line – both accounts receivable and accounts payable days are about average. This indicates that the company is collecting money it is owed and paying bills/payables at a similar rate as others in the industry. There might be some flexibility here to collect receivables more quickly or pay vendor accounts more slowly in order to improve the specific cash accounts of the company **if need be**.

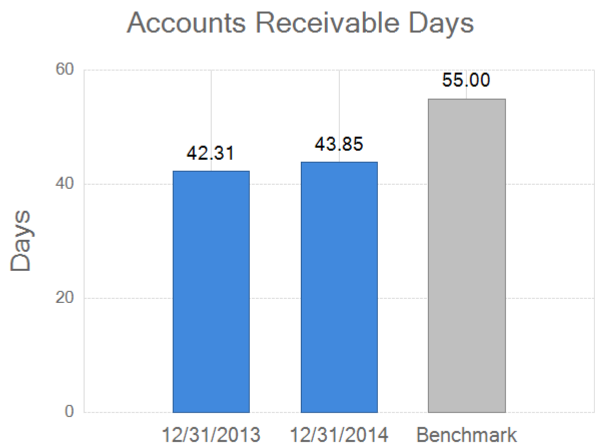
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



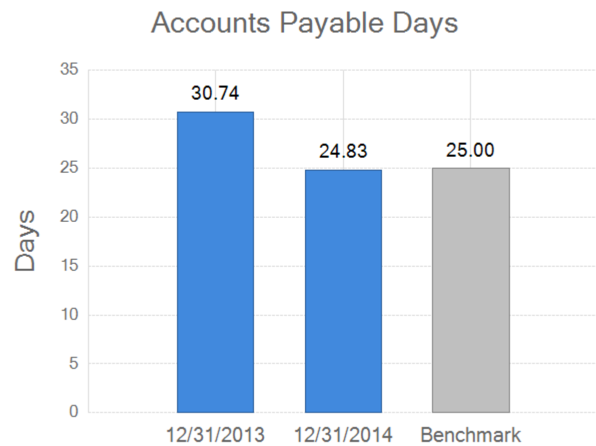
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company 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 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  21 out of 100

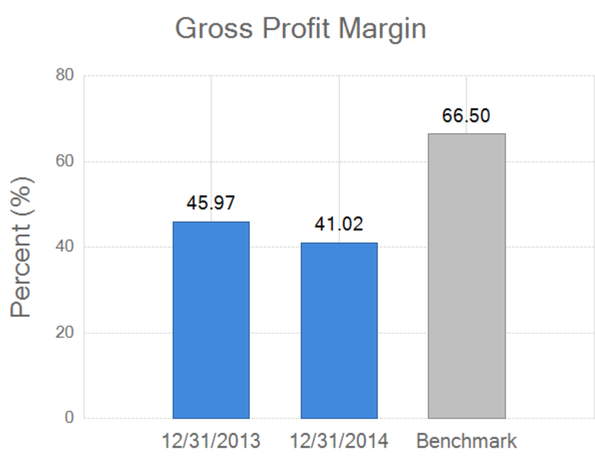
A measure of whether the trends in profit are favorable for the company.

Although sales did grow from last period, almost everything else fell during the period, including gross margins, net margins, and net profitability. Most importantly, net margins are low even when compared to other similar companies.

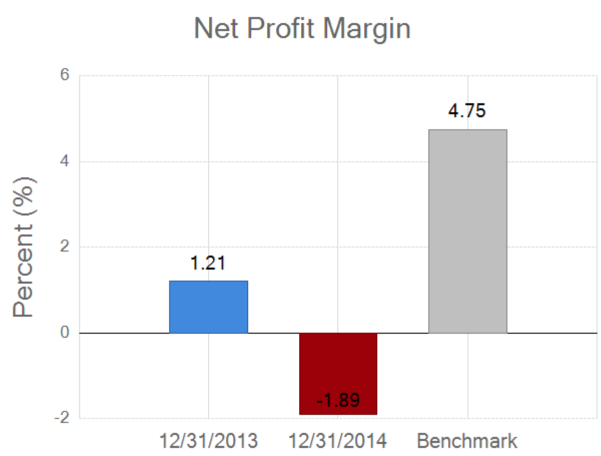
This situation calls into question the increased spending on operating costs during this period. It may not be a good idea to spend more on operating costs when overall profitability is low. A possible exception to this idea is if the company has invested in operating costs that will help propel future earnings: even costs are a form of investment.

Basically, lingering in this position could put the company at risk in the future. It will be important to reverse the slips seen this period as the company moves forward. A company relies on healthy net profitability to provide the overall liquidity needed in the long run and to provide the economic returns on investments in assets and people.

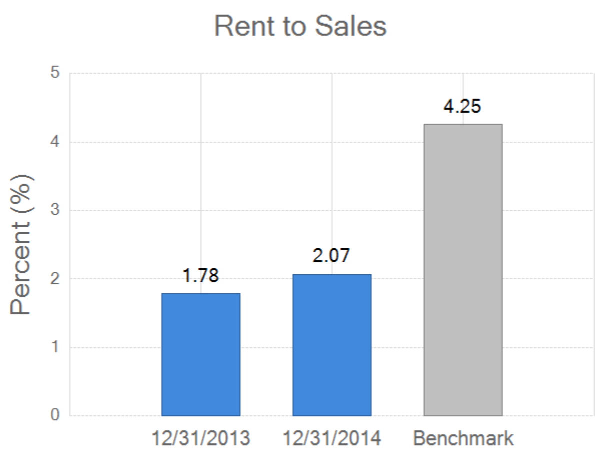
The company can start in the right direction by working on gross margins: they are any company's first line of defense. Gross profits determine how much money managers have available to pay operating expenses. In this case, gross margins have fallen substantially, which could be dangerous when the overall condition in this area is weak.



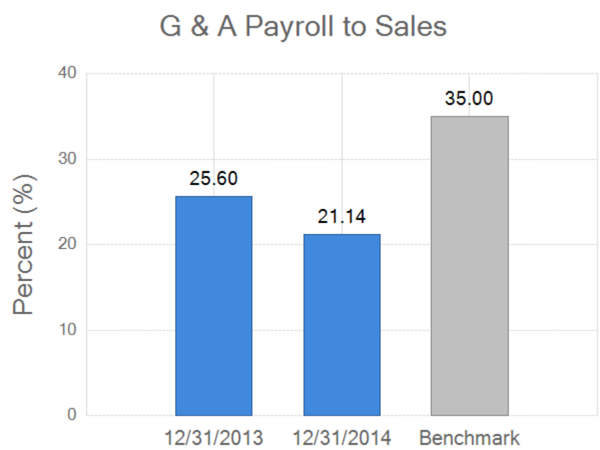
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better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



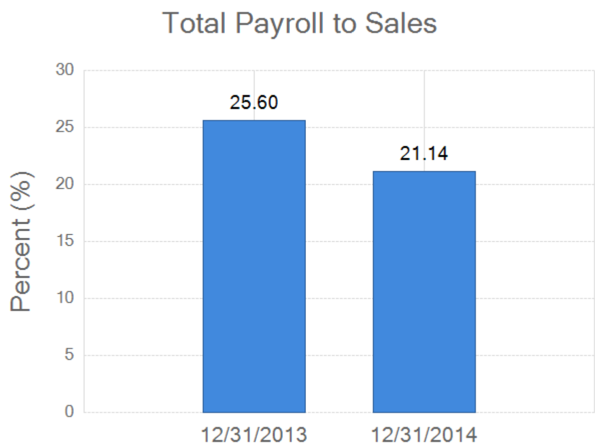
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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



This 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.

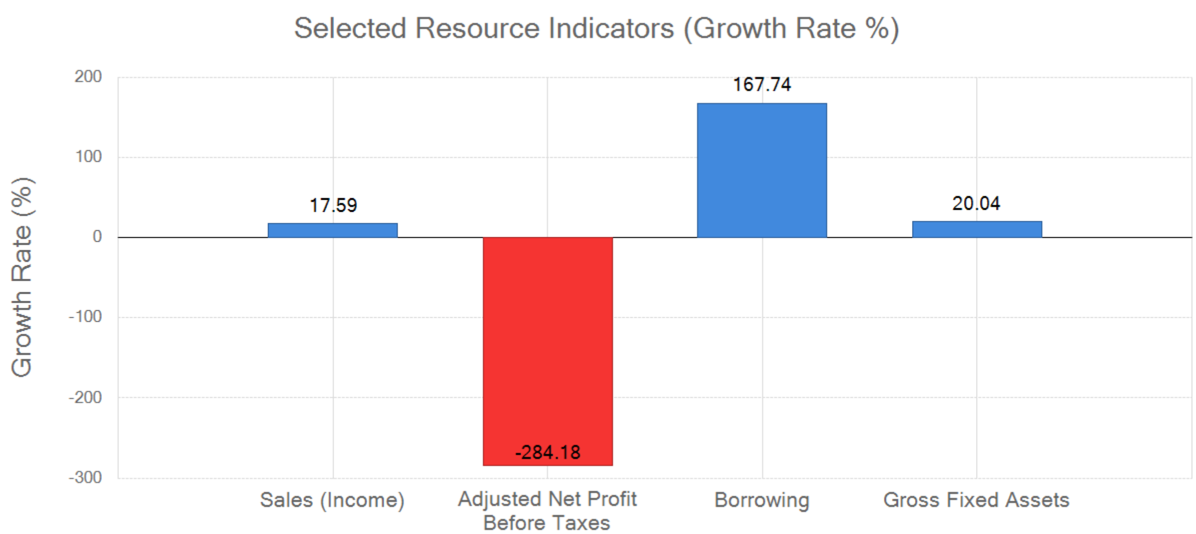


This metric shows total payroll expense for the company as a percentage of sales.

Sales 76 out of 100

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

The company's sales have risen this period, which is clearly a positive result. This report does not focus on sales results because this data tends to be straightforward to analyze. However, the company's fixed asset base grew at **a faster rate** than sales. This means that "asset turns" (or the amount of sales revenue driven through each dollar of fixed assets) has fallen slightly from last period, which might be considered unfavorable. It is possible that these new assets require some time to contribute to sales, or that the assets were not purchased with the idea of increasing sales. Managers should look for long-term trends in this area.



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

Borrowing 11 out of 100

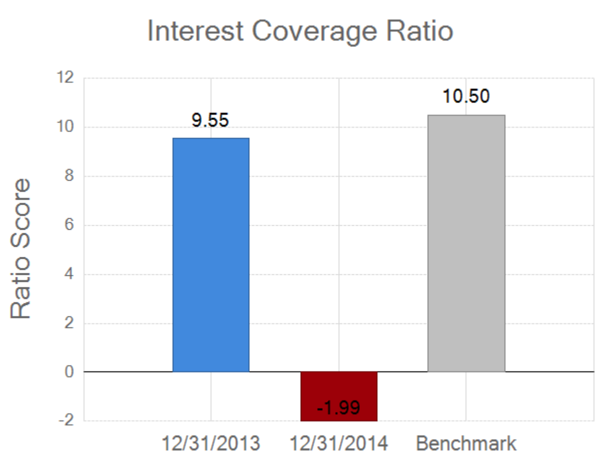
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

It is very difficult to establish cause and effect relationships. Clearly, total debt rose significantly this period. At the same time, net profitability (in dollars) fell. The bottom line is that the company added significant debt, which has not helped leverage more success in the form of profitability, at least as of yet. This is not a favorable trend, especially if it continues in the future. Until profitability improves, it may be best to be rather cautious about adding more debt to the books. This analysis holds for both short-term and long-term debt. Even though short-term debt usually carries less risk, all borrowing should lever profitability over time.

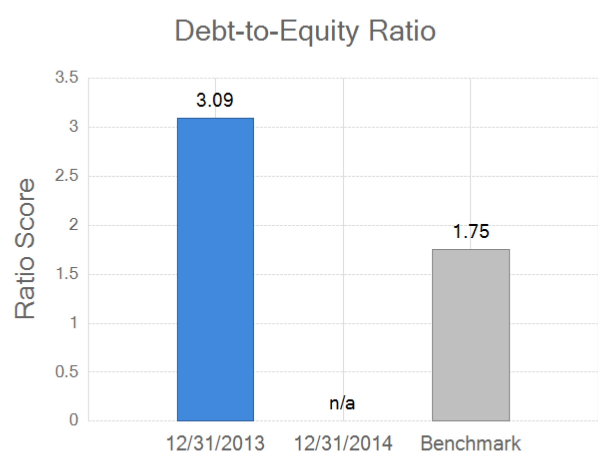
Another disturbing event is that net margins fell, as mentioned previously. Over the short term, it is acceptable to lose a little efficiency while adding debt. However, over the long term, even debt should improve profitability and profit margins.

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).

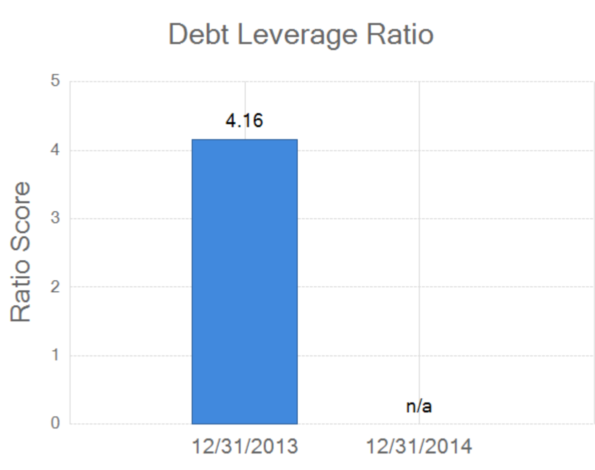
There is always room for improvement in overall debt management strategies. The company should check to make sure that it is in compliance with its loan agreements -- the loan "covenants" regarding financial benchmarks that need to be met. Another action to take is good income and cash forecasting which shows how profitability and cash will change with different levels 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).

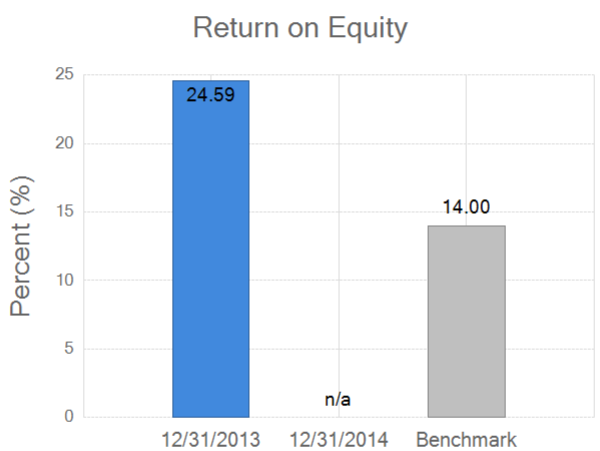
Assets 13 out of 100

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

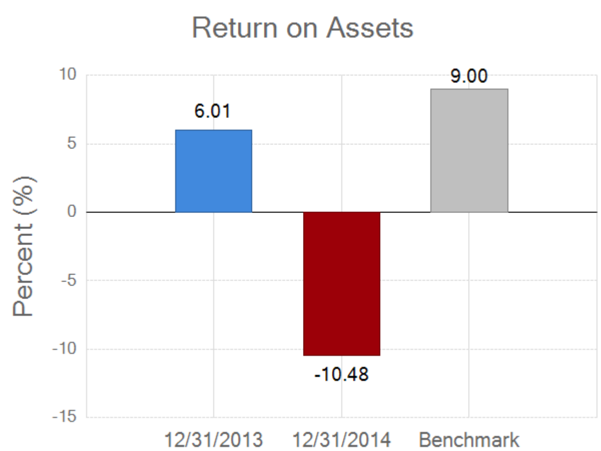
Because fixed assets do not appear on the Income Statement, companies sometimes forget to consider them in terms of how they affect profitability. Nevertheless, the Income Statement is a symptom, not a cause. Increasing fixed assets can actually help a company earn better profitability if it is done in the correct manner.

In this case, it looks like the assets bought may not be performing optimally, at least as of yet. This is because buying them has not improved profitability. Indeed, profitability is down from last period. It is important to make sure that all asset purchases will help improve profitability, at least over the long run. Techniques such as performing a return on investment analysis before making a purchase decision can help assure this. This area merits particular attention at this time given that net profit margins and overall liquidity are down, too. Although it is possible that the assets recently purchased need some time to start operating at their maximum levels, managers may want to be particularly careful about making additional asset purchases at this time.

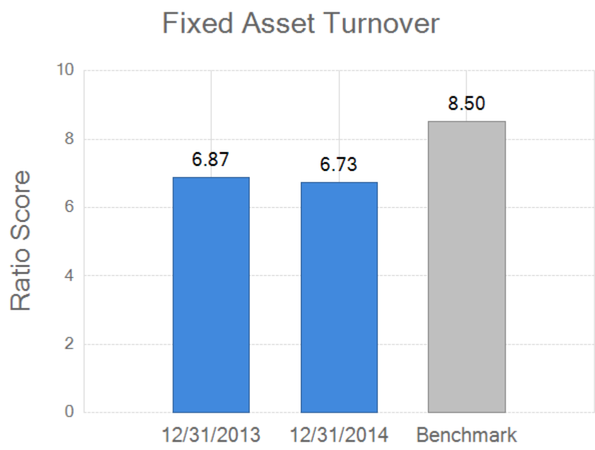
The company seems to be doing a poor job of managing its assets. Notice that the company generated a relatively poor return on assets and equity this period, which is a negative result for investors and creditors. It may be important for the company to improve this area in the future, because assets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

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	12/31/2013	12/31/2014
Sales (Income)	$6,917,817	$8,134,384
Engineering	$3,011,742	$5,804,118
Manufacturing	$2,632,123	$1,404,907
Distribution	$1,255,101	$891,070
Other	$18,851	$34,289
Cost of Sales (COGS)	$3,737,696	$4,797,828
Direct Labor	$0	$0
Depreciation (COGS-related)	$0	$0
Direct Materials	$1,051,889	$1,149,314
Distribution	$934,374	$1,155,104
Project Components	$1,042,374	$1,913,774
Machine Shop Internal	($337,249)	($447,601)
Engineering Internal	$407,855	$629,158
Distribution Internal	($60,854)	($181,557)
Machine Shop Labor	$699,307	$579,456
Other	$0	$180
Gross Profit	$3,180,121	$3,336,556
Gross Profit Margin	45.97%	41.02%
Depreciation	$119,329	$0
Amortization	$0	$0
Overhead or S,G,& A Expenses	$2,925,592	$3,168,234
G & A Payroll Expense	$1,770,810	$1,719,957
Rent	$123,000	$168,549
Advertising	$0	$0
Subcontractor fees	$166,316	$201,816
Benefits	$398,725	$424,307
Utilities, Supplies & Maint	$114,348	$202,552
Commission	$0	$0
Website Maintenance	$0	$0
Sales Expense	$189,570	$313,446
Shipping Expenses	$0	$0
T&E	$0	$0
Overhead	$162,823	$137,607
Other Operating Income	$221	$0
Other Operating Expenses	$28,165	$12,679
Operating Profit	$107,256	$155,643
Interest Expense	$23,715	$51,439
Other Income	$0	$192
Other Expenses	$0	$258,265
Net Profit Before Taxes	$83,541	($153,869)
Adjusted Net Profit Before Taxes	$83,541	($153,869)
Net Profit Margin	1.21%	-1.89%
EBITDA	$226,585	($102,430)
Taxes Paid	$8,683	$7,248
Extraordinary Gain	$0	$0
Extraordinary Loss	$0	$0
Net Income	$74,858	($161,117)
Balance Sheet Data	**12/31/2013**	**12/31/2014**
Cash (Bank Funds)	$234,209	$264
Accounts Receivable	$801,987	$977,325

Inventory	$0	$0
Other Current Assets	$43,628	$166,560
Costs and Earnings in Excess of Billings	$0	$0
Total Current Assets	$1,079,824	$1,144,149
Gross Fixed Assets	$1,006,419	$1,208,097
Accumulated Depreciation	$883,588	$864,246
Net Fixed Assets	$122,831	$343,851
Gross Intangible Assets	$0	$0
Accumulated Amortization	$0	$0
Net Intangible Assets	$0	$0
Other Assets	$43,265	$49,265
Total Assets	$1,245,920	$1,537,265
Accounts Payable	$314,811	$326,390
Short Term Debt	$111,649	$11,091
Notes Payable / Current Portion of Long Term Debt	$86,812	$532,522
Other Current Liabilities	$341,387	$566,987
Billings in Excess of Costs	$0	$0
Total Current Liabilities	$854,659	$1,436,990
Notes Payable / Senior Debt	$19,817	$696,117
Notes Payable / Subordinated Debt	$66,986	$387,526
Other Long Term Liabilities	$0	($121,909)
Total Long Term Liabilities	$86,803	$961,734
Total Liabilities	$941,462	$2,398,724
Preferred Stock	$0	$0
Common Stock	$15,000	$15,000
Additional Paid-in Capital	$0	$0
Other Stock / Equity	$0	($1,004,800)
Ending Retained Earnings	$289,458	$128,341
Total Equity	$304,458	($861,459)
Total Liabilities + Equity	$1,245,920	$1,537,265

Common Size Statements

Income Statement Data	**12/31/2013**	**12/31/2014**	**Industry* (2873)**
Sales (Income)	100%	100%	100%
Engineering	44%	71%	--
Manufacturing	38%	17%	--
Distribution	18%	11%	--
Other	0%	0%	--
Cost of Sales (COGS)	54%	59%	45%
Direct Labor	0%	0%	32%
Depreciation (COGS-related)	0%	0%	1%
Direct Materials	15%	14%	25%
Distribution	14%	14%	--
Project Components	15%	24%	--
Machine Shop Internal	N/A	N/A	--
Engineering Internal	6%	8%	--
Distribution Internal	N/A	N/A	--
Machine Shop Labor	10%	7%	--
Other	0%	0%	--
Gross Profit	46%	41%	55%
Depreciation	2%	0%	1%
Amortization	0%	0%	0%

Overhead or S,G,& A Expenses	42%	39%	44%
G & A Payroll Expense	26%	21%	33%
Rent	2%	2%	3%
Advertising	0%	0%	0%
Subcontractor fees	2%	2%	--
Benefits	6%	5%	--
Utilities, Supplies & Maint	2%	2%	--
Commission	0%	0%	--
Website Maintenance	0%	0%	--
Sales Expense	3%	4%	--
Shipping Expenses	0%	0%	--
T&E	0%	0%	--
Overhead	2%	2%	--
Other Operating Income	0%	0%	0%
Other Operating Expenses	0%	0%	3%
Operating Profit	2%	2%	7%
Interest Expense	0%	1%	0%
Other Income	0%	0%	0%
Other Expenses	0%	3%	0%
Net Profit Before Taxes	1%	-2%	7%
Adjusted Net Profit Before Taxes	1%	-2%	7%
EBITDA	3%	-1%	8%
Taxes Paid	0%	0%	2%
Extraordinary Gain	0%	0%	0%
Extraordinary Loss	0%	0%	0%
Net Income	1%	-2%	5%
Balance Sheet Data	**12/31/2013**	**12/31/2014**	**Industry* (2873)**
Cash (Bank Funds)	19%	0%	10%
Accounts Receivable	64%	64%	49%
Inventory	0%	0%	0%
Other Current Assets	4%	11%	6%
Costs and Earnings in Excess of Billings	0%	0%	10%
Total Current Assets	87%	74%	76%
Gross Fixed Assets	81%	79%	44%
Accumulated Depreciation	71%	56%	25%
Net Fixed Assets	10%	22%	18%
Gross Intangible Assets	0%	0%	0%
Accumulated Amortization	0%	0%	0%
Net Intangible Assets	0%	0%	0%
Other Assets	3%	3%	6%
Total Assets	100%	100%	100%
Accounts Payable	25%	21%	11%
Short Term Debt	9%	1%	0%
Notes Payable / Current Portion of Long Term Debt	7%	35%	1%
Other Current Liabilities	27%	37%	21%
Billings in Excess of Costs	0%	0%	4%
Total Current Liabilities	69%	93%	43%
Notes Payable / Senior Debt	2%	45%	2%
Notes Payable / Subordinated Debt	5%	25%	0%
Other Long Term Liabilities	0%	-8%	2%
Total Long Term Liabilities	7%	63%	14%
Total Liabilities	76%	156%	57%

Preferred Stock	0%	0%	0%
Common Stock	1%	1%	1%
Additional Paid-in Capital	0%	0%	2%
Other Stock / Equity	0%	-65%	3%
Ending Retained Earnings	23%	8%	36%
Total Equity	24%	-56%	43%
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 541330 for all years in all areas with yearly sales between $5 million and $20 million.

Industry Scorecard

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	0.80	1.80 to 3.00	-55.56%
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	0.68	1.00 to 2.20	-32.00%
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.			
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	43.85 Days	40.00 to 70.00 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	24.83 Days	10.00 to 40.00 Days	0.00%
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.			
Gross Profit Margin = Gross Profit / Sales	41.02%	58.00% to 75.00%	-29.28%
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).			
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	-1.89%	1.50% to 8.00%	-226.00%
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.			
Rent to Sales = Rent / Sales	2.07%	2.00% to 6.50%	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	21.14%	28.00% to 42.00%	+24.50%
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	21.14%	--	--
Explanation: This metric shows total payroll expense for the company as a percentage of sales.			
Interest Coverage Ratio = EBITDA / Interest Expense	-1.99	5.00 to 16.00	-139.80%
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	--	1.00 to 2.50	--

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.

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

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

Return on Equity = Net Income / Total Equity	--	8.00% to 20.00%	--

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	-10.48%	6.00% to 12.00%	-274.67%

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.

Fixed Asset Turnover = Sales / Gross Fixed Assets	6.73	5.00 to 12.00	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.

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.).