Industry Comparative Report

Real Wholesale Equipment Company

Provided By

B2B CFO®

SINCE 1987

Financial Score

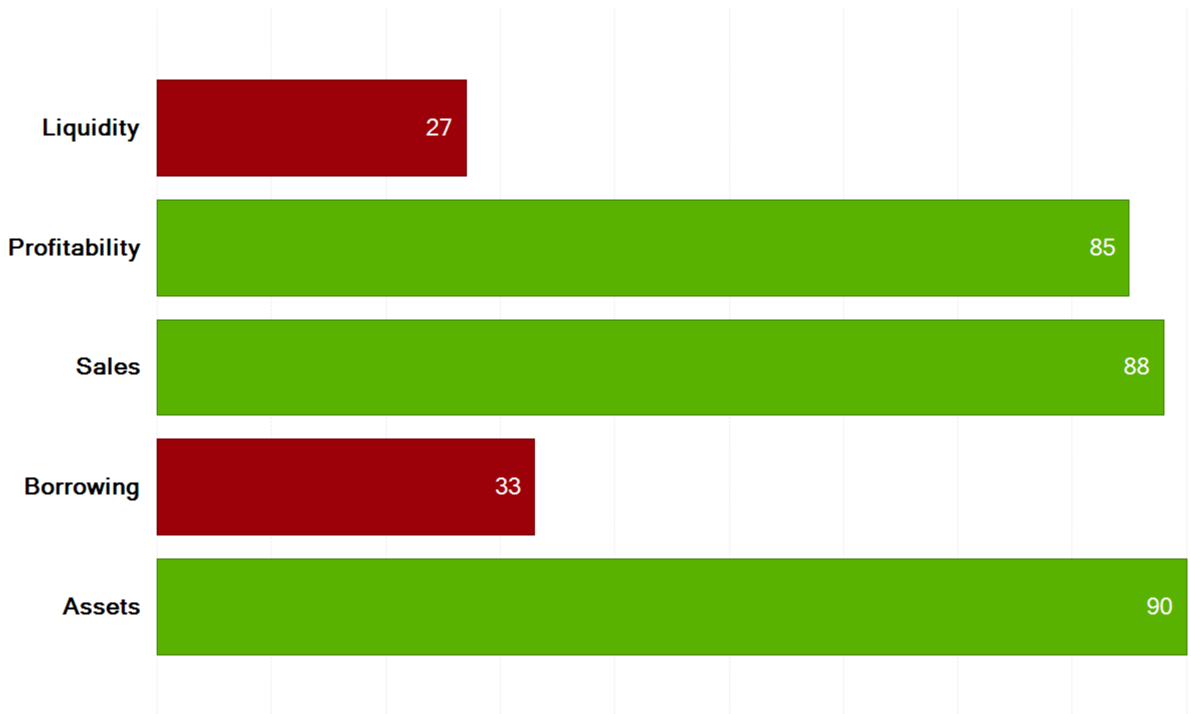
Real Equipment Wholesales Company Narrative Report

Industry: 423810 - Construction and Mining (except Oil Well) Machinery and Equipment Merchant Wholesalers

Revenue: $1M - $10M

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

Report Summary



Liquidity 27 out of 100

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

Operating Cash Flow Results
Operating cash flow is negative for the period and has declined relative to sales. The company generated solid profits, however; this is unusual and concerning, given that overall liquidity appears weak. Look at the Statement of Cash Flows to determine exactly how cash is exiting the company. If profits reflect real economic progress, it seems like working capital accounts may need to be more effectively managed.

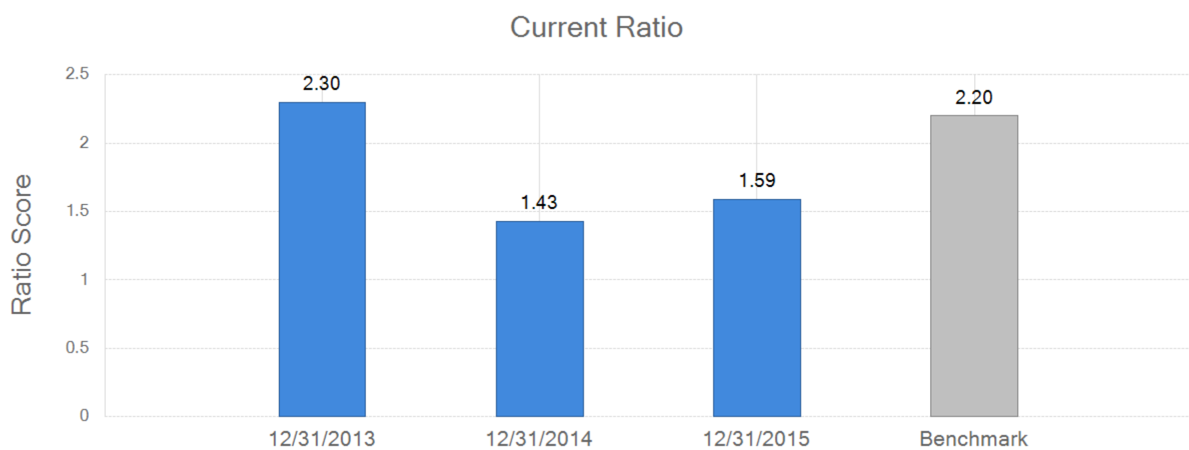
General Liquidity Conditions
It is positive that the company has increased its **sales and profits this period**; this may have helped the company improve its liquidity position. However, it looks like the challenge for the company in the "overall" liquidity area is to increase its rate of progress. While it is

true that **cash and near-cash assets have grown** relative to current obligations, which is a positive trend, the company's liquidity position is still poor. In fact, although the top liquid accounts have improved, the "overall" liquidity position appears about as weak as it was last period. Remember that this overall position is calibrated by comparing total current assets on hand to total current liabilities.

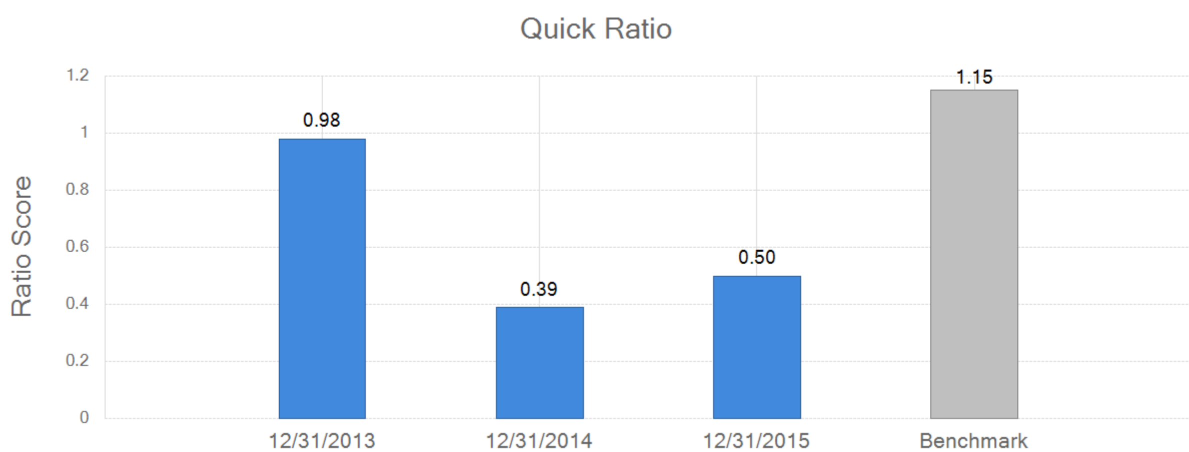
Basically, it is necessary to understand that the company has some weakness in both its cash accounts and its overall liquidity base. This means that there **may** not be enough cash invested in the company. The company also does not have enough total current assets relative to its short-term financial obligations. Although the company has made some progress in this area, it still seems to be having some difficulties. Therefore, the company may want to start improving its liquidity position.

A positive aspect of this company's performance is its accounts receivable days, which are low. This metric is better (lower) than the industry average, indicating that the company is efficient in collecting money from customers. However, on a negative note, the inventory days ratio is high this period. The company may be having some trouble selling its inventory; it would seem that inventory days may need some specific attention.

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.

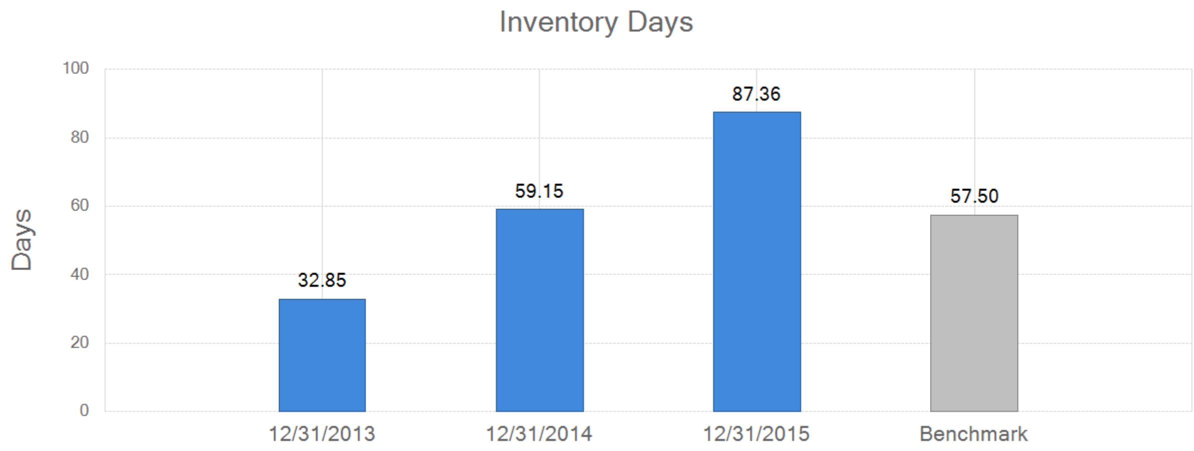


Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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

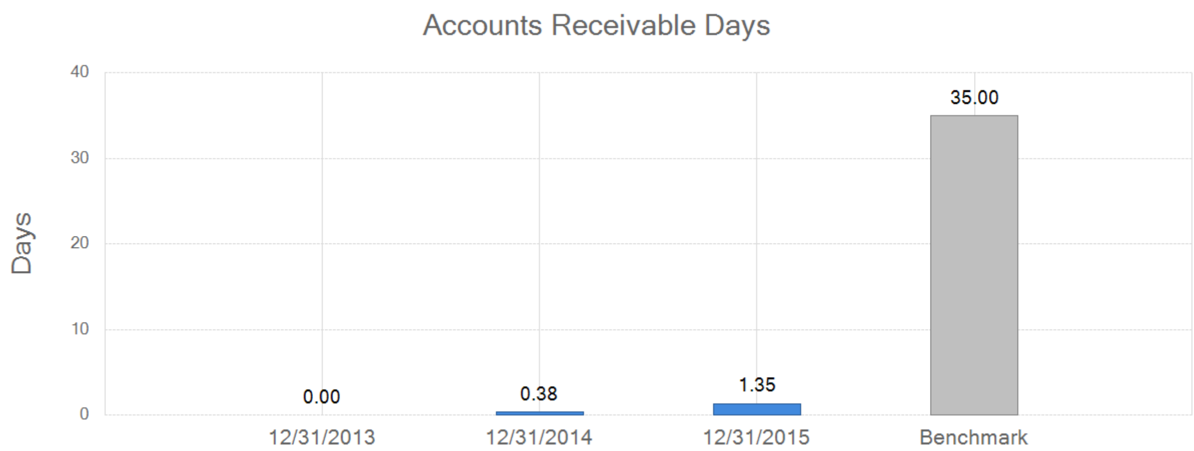


This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator

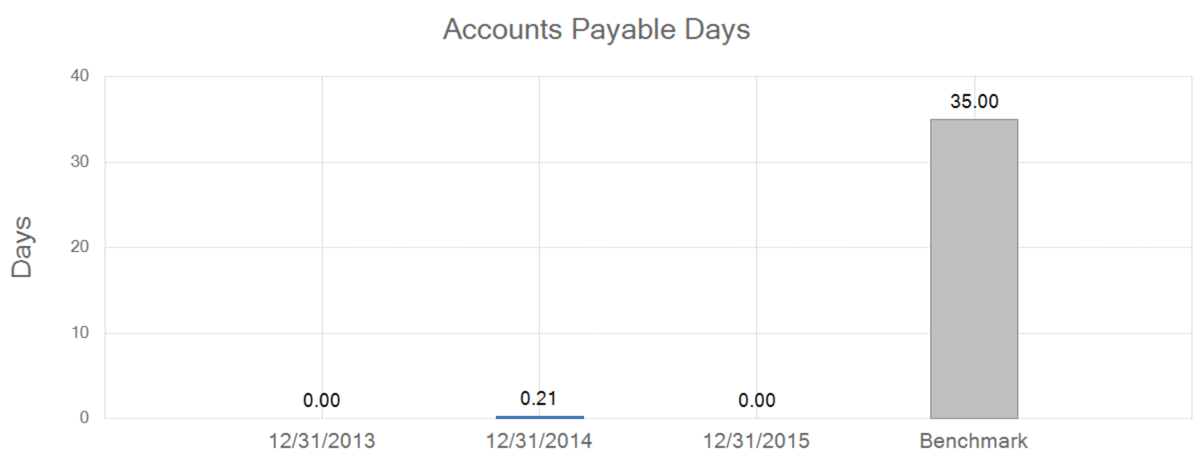
(current liabilities). The higher the number, the stronger the company.



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.

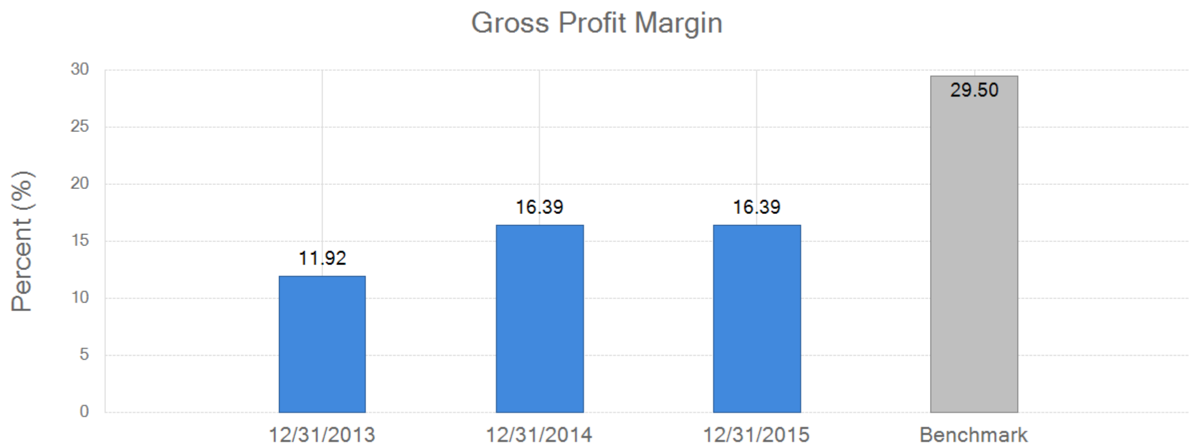
Profits & Profit Margin 85 out of 100

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

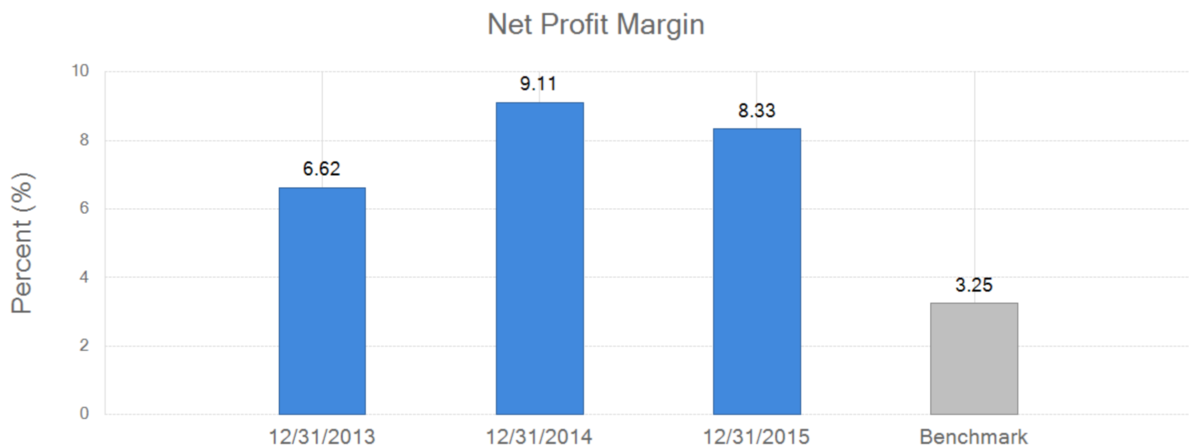
This company's net profit margin did not improve since last period even though sales and net profits in dollars increased. This result is not a concern for a one period result because the net profit margin is still strong overall and relative to the net margins that are being earned by other firms in this industry. This is highlighted in the graph area of the report.

Ideally, the company might have liked to see net profit margins improve this period from last period. This is because some of the company's costs are fixed (they stay about the same each month), and should therefore go down as a percentage of sales when sales rise as much as they have. This would increase net profit margins for the period.

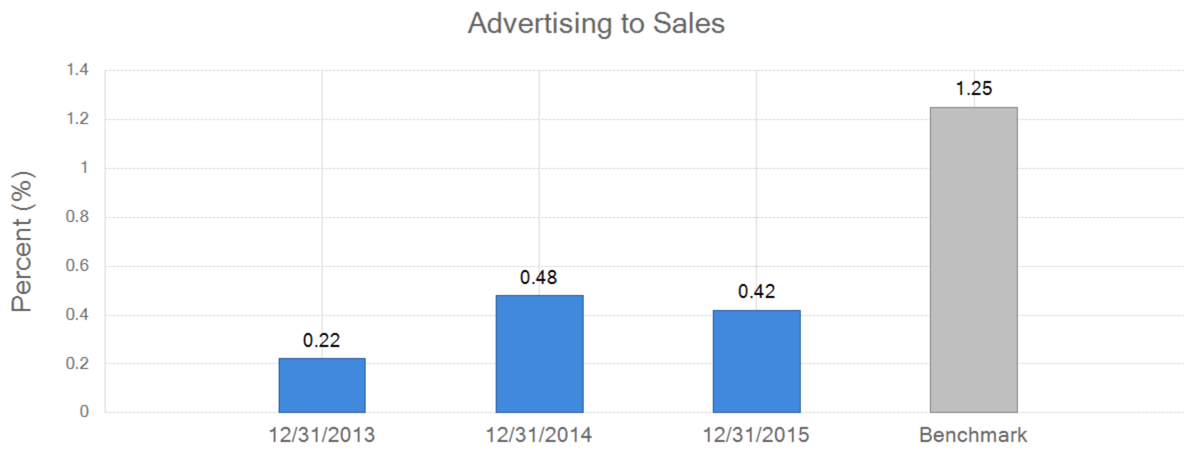
As always, it is important to look at the Income Statement closely. Are there any one-time bumps in profits due to transactions that would not occur within the normal operating cycle of the business? It is important for managers to know and understand the causes of any success in this area.



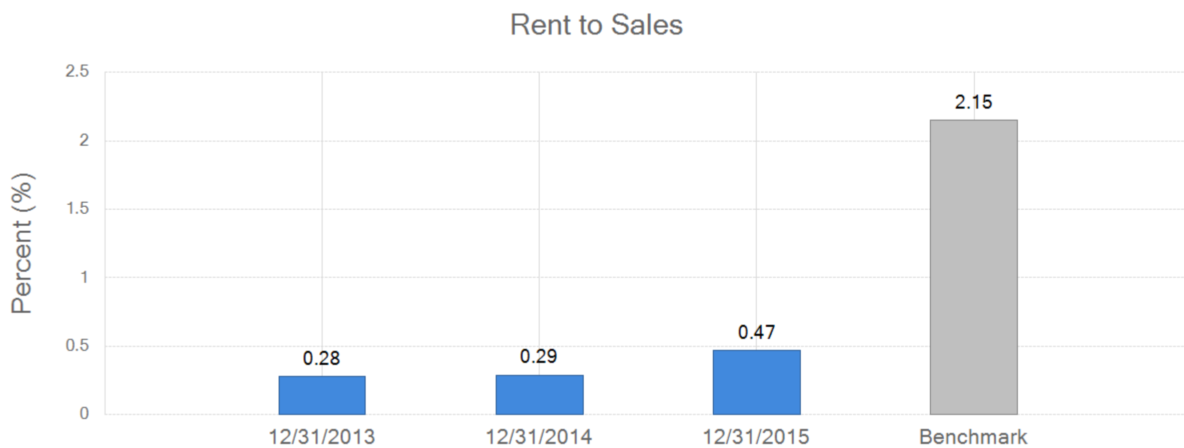
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better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



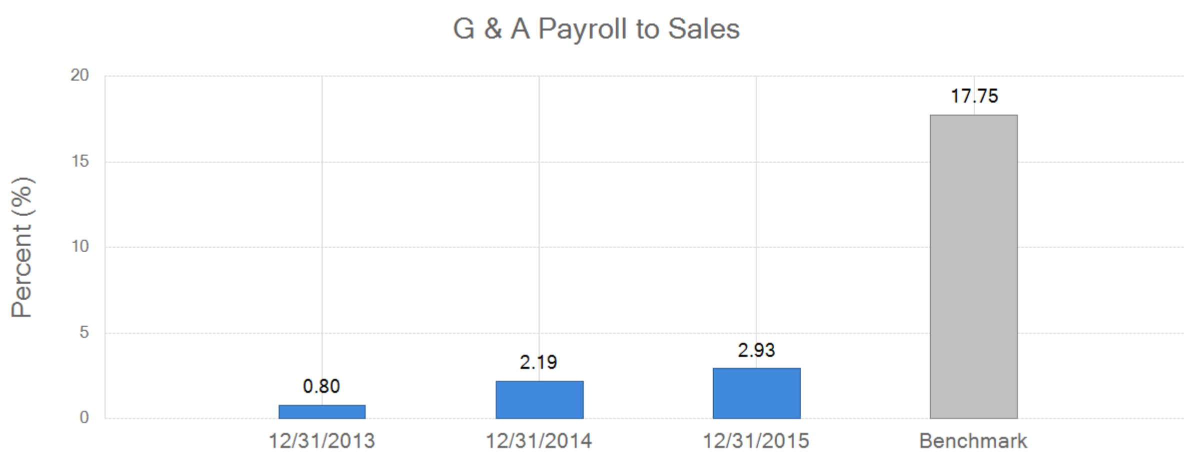
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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



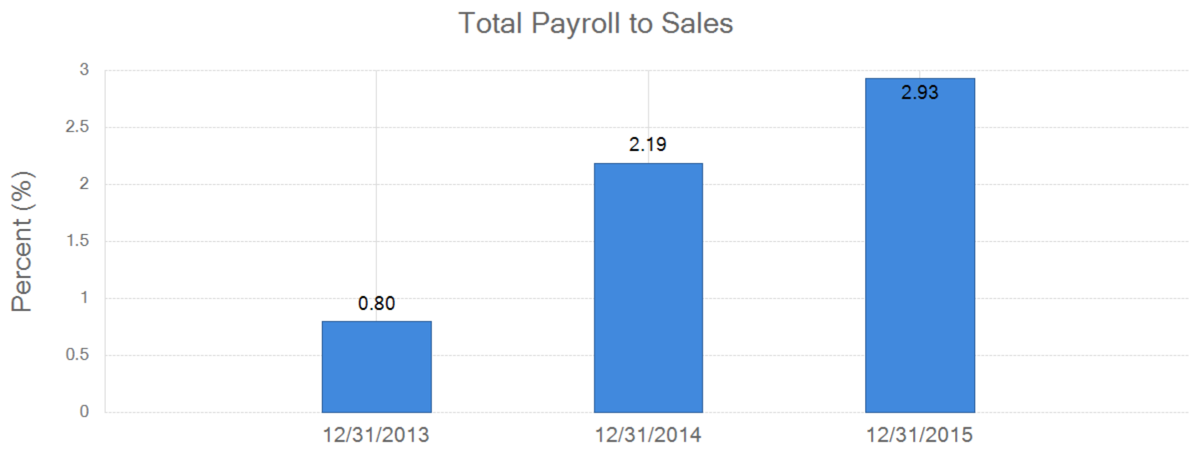
This metric shows advertising expense for the company as a percentage of sales.



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.

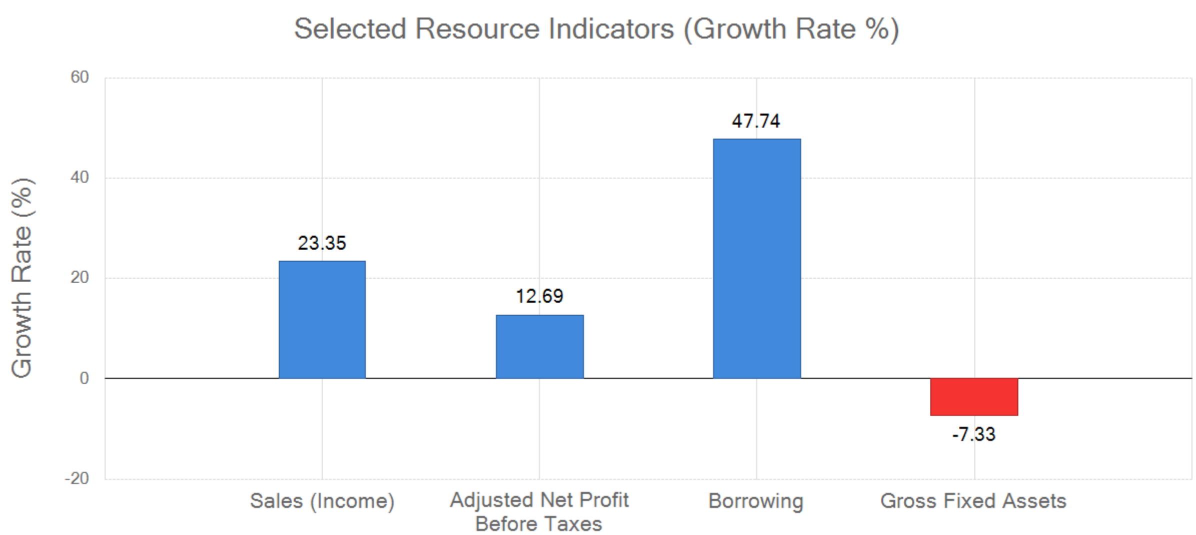


This metric shows total payroll expense for the company as a percentage of sales.

Sales 88 out of 100

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

The company's sales increased significantly this period by 23.35%. Even better, this was achieved with fewer fixed assets. More sales are now being driven through existing resources. Managers will want to think about what happened in the business to cause this dynamic. The company is doing something to increase sales that does not involve buying more fixed assets. These results should help the company achieve higher profitability in the future, assuming that management can control expenses. In short, pushing more volume through relatively "flat" resources is a good step toward long-term success.



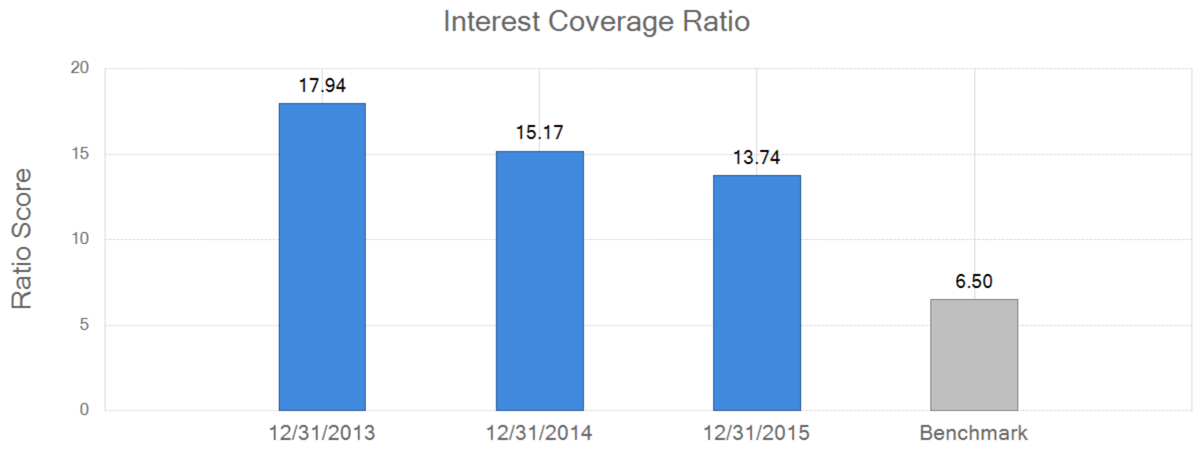
This data is based on the two most recent available periods.

Borrowing 33 out of 100

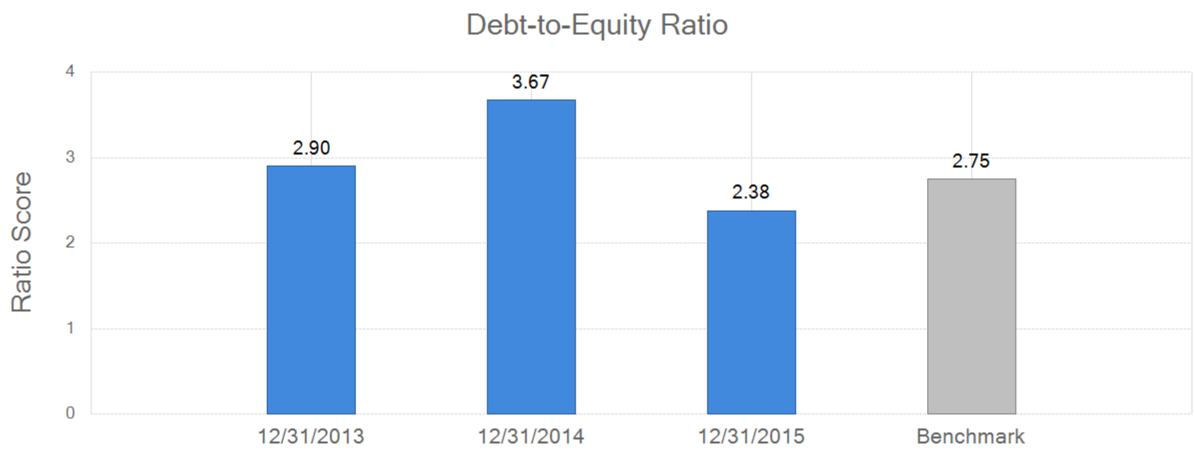
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

The goal of borrowing is to add assets, finance them with debt, and drive in profitability. In this case, the company increased debt significantly and improved profitability. However, the problem is that debt rose at a significantly faster rate than profitability. If continued over the long run, this dynamic could become a problem. It is important to improve profitability at a **higher rate** than debt increases. In other words, not only should profitability improve, but it should improve faster relative to the increase in debt.

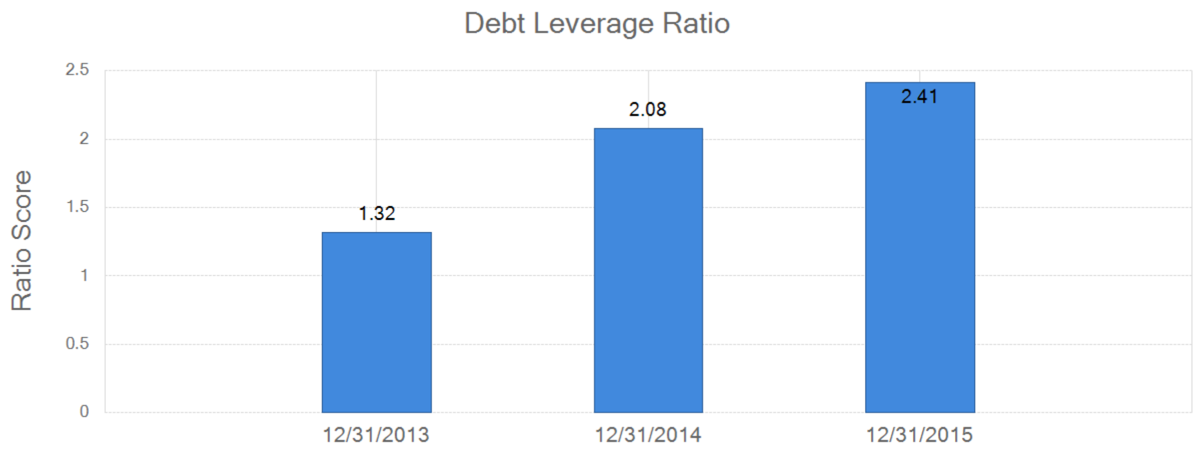
Although the company has not received the best overall score in this area of the report, it is generating solid earnings (before interest and non-cash expenses) relative to its debt obligations. This is positive and perhaps the trend noted between debt and profitability is a one-time event. However, it could also be that the system is detecting early unfavorable trends, in which case management may want to further evaluate this area. Otherwise, please place less emphasis on the overall score in this area.



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.



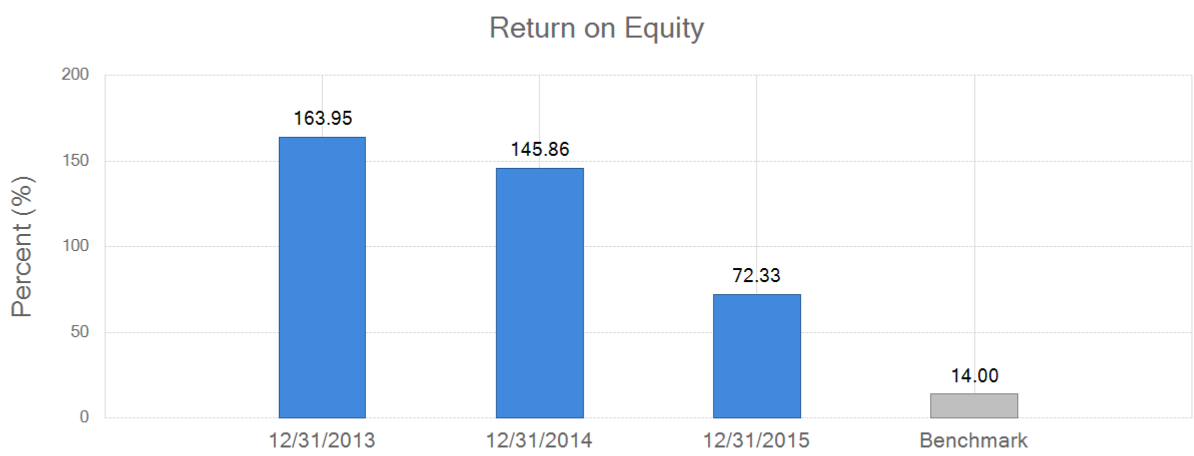
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Assets 90 out of 100

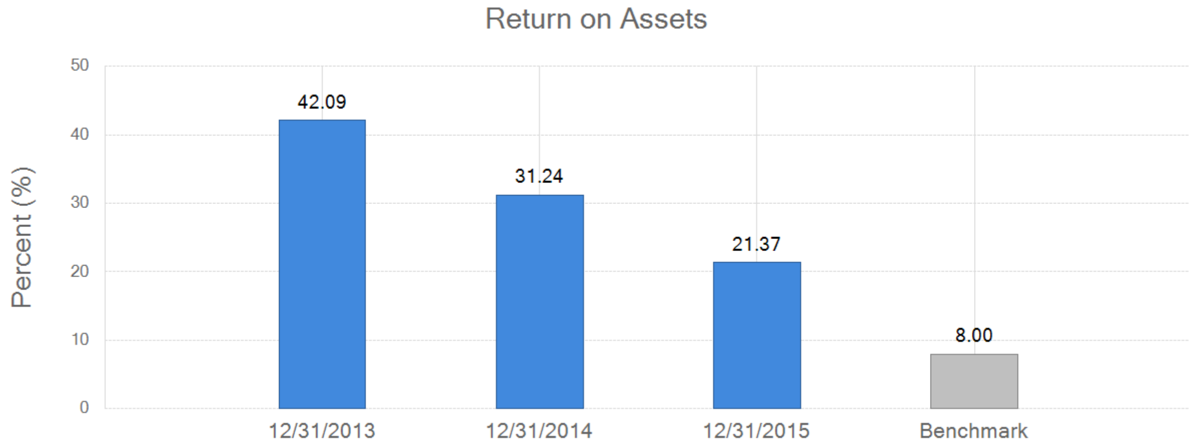
A measure of how effectively the company is utilizing its gross fixed assets.

Some fixed assets were eliminated, but net profitability still improved during this period. The company reduced fixed assets and was able to simultaneously improve the level of profitability on the remaining assets. In the long run, this should have a positive impact on both the company's overall health and future net profit margins. Typically, good managers should try to keep both expenses and assets as low as possible for a given level of profitability. This is because lower asset levels improve the return on assets, which increases the company's ability to borrow profitably.

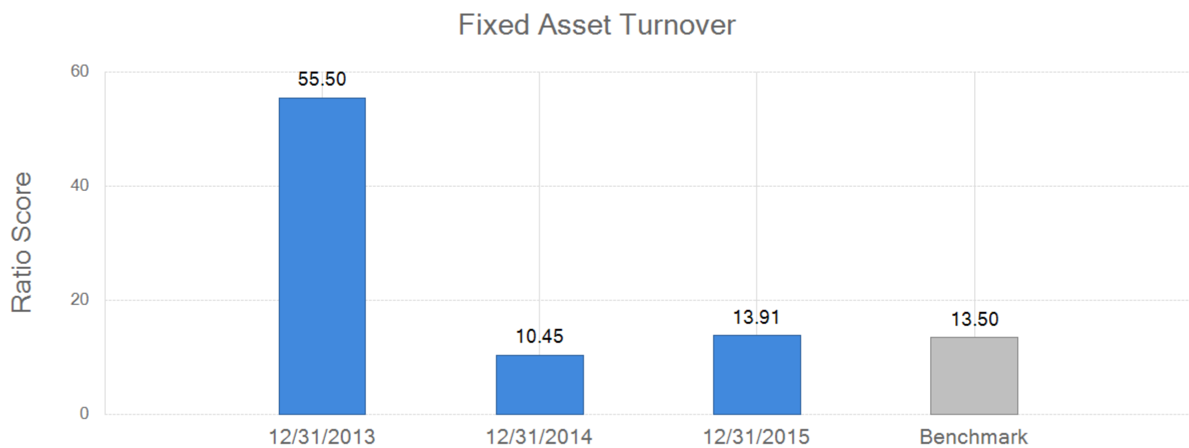
Other positive points include the above average return on assets and return on equity that the company earned this period. If profits are moving positively against fixed assets and the company is generating good returns on those assets, this area will continue to score very well, as has been the case this period.



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.



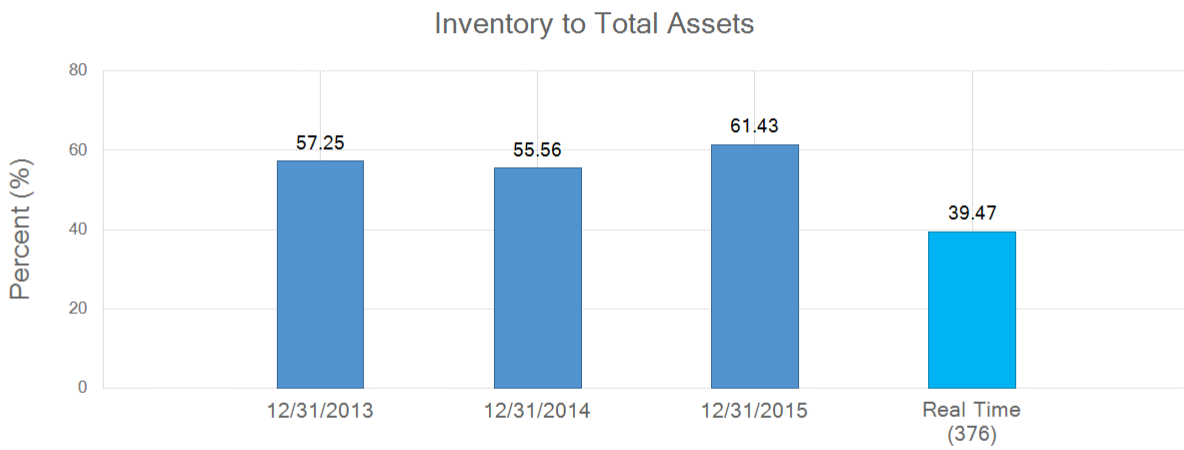
This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize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

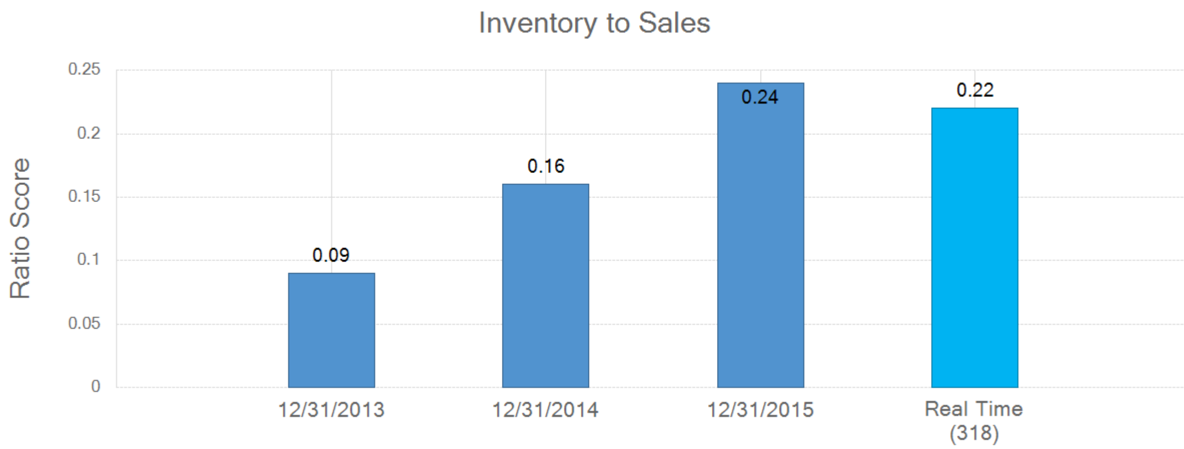
Industry-Specific Performance Ratios

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



Inventory to Sales = Inventory / Sales

Raw Data

Income Statement Data	12/31/2013	12/31/2014	12/31/2015
Sales (Income)	$6,919,272	$5,985,419	$7,382,732
Construction Machinery & Equipment Sales	$0	$0	$0
Mining Machinery & Equipment Sales	$0	$0	$0
Service & Installation Sales	$0	$0	$0
Cost of Sales (COGS)	$0	$0	$0
Depreciation (COGS-related)	$0	$0	$0
Purchases for Resale	$0	$0	$0
Direct Materials	$0	$0	$0
Direct Labor	$0	$0	$0
Gross Profit	$824,464	$980,859	$1,209,843
Gross Profit Margin	11.92%	16.39%	16.39%
Depreciation	$122,108	$70,325	$164,094
Amortization	$0	$0	$0
Overhead or S,G,& A Expenses	$210,196	$176,907	$371,174
G & A Payroll Expense	$55,328	$131,010	$216,624
Rent	$19,311	$17,074	$34,374
Advertising	$15,402	$28,823	$30,986
Other Operating Income	$0	$0	$0
Other Operating Expenses	$0	$0	$0
Operating Profit	$492,160	$588,163	$674,575
Interest Expense	$34,248	$43,458	$61,112
Other Income	$0	$760	$1,210
Other Expenses	$0	$0	$0
Net Profit Before Taxes	$457,912	$545,465	$614,673
Adjusted Net Profit Before Taxes	$457,912	$545,465	$614,673
Net Profit Margin	6.62%	9.11%	8.33%
EBITDA	$614,268	$659,248	$839,879
Taxes Paid	$0	$0	$0
Extraordinary Gain	$0	$0	$0
Extraordinary Loss	$0	$0	$0
Net Income	$457,912	$545,465	$614,673

Balance Sheet Data	12/31/2013	12/31/2014	12/31/2015
Cash (Bank Funds)	$460,197	$358,534	$786,271
Accounts Receivable	$0	$6,271	$27,343
Allowance for Doubtful Accounts	$0	$0	$0
Inventory	$622,813	$969,995	$1,767,061
Construction Machinery & Equipment Inventory	$0	$0	$0
Mining Machinery & Equipment Inventory	$0	$0	$0
Loggin Machinery & Equipment Inventory	$0	$0	$0
Other Current Assets	$0	$13,044	$16,955
Total Current Assets	$1,083,010	$1,347,844	$2,597,630
Gross Fixed Assets	$124,671	$572,686	$530,680
Accumulated Depreciation	$124,671	$178,704	$254,628
Net Fixed Assets	$0	$393,982	$276,052
Gross Intangible Assets	$0	$0	$0
Accumulated Amortization	$0	$0	$0
Net Intangible Assets	$0	$0	$0
Other Assets	$4,942	$3,980	$2,880
Total Assets	$1,087,952	$1,745,806	$2,876,562
Accounts Payable	$0	$3,385	$0

Short Term Debt	$404,287	$914,227	$1,563,817
Notes Payable / Current Portion of Long Term Debt	$0	$0	$0
Other Current Liabilities	$67,027	$25,598	$72,210
Total Current Liabilities	$471,314	$943,210	$1,636,027
Notes Payable / Senior Debt	$0	$88,004	$77,996
Notes Payable / Subordinated Debt	$337,346	$340,615	$312,670
Other Long Term Liabilities	$0	$0	$0
Total Long Term Liabilities	$337,346	$428,619	$390,666
Total Liabilities	$808,660	$1,371,829	$2,026,693
Preferred Stock	$0	$0	$0
Common Stock	$0	$0	$0
Additional Paid-in Capital	$0	$0	$0
Other Stock / Equity	$279,292	$373,977	$849,869
Ending Retained Earnings	$0	$0	$0
Total Equity	$279,292	$373,977	$849,869
Total Liabilities + Equity	$1,087,952	$1,745,806	$2,876,562

Common Size Statements

Income Statement Data	12/31/2013	12/31/2014	12/31/2015	Industry* (767)
Sales (Income)	100%	100%	100%	100%
Construction Machinery & Equipment Sales	0%	0%	0%	100%
Mining Machinery & Equipment Sales	0%	0%	0%	--
Service & Installation Sales	0%	0%	0%	1%
Cost of Sales (COGS)	0%	0%	0%	71%
Depreciation (COGS-related)	0%	0%	0%	3%
Purchases for Resale	0%	0%	0%	71%
Direct Materials	0%	0%	0%	66%
Direct Labor	0%	0%	0%	5%
Gross Profit	12%	16%	16%	29%
Depreciation	2%	1%	2%	1%
Amortization	0%	0%	0%	0%
Overhead or S,G,& A Expenses	3%	3%	5%	20%
G & A Payroll Expense	1%	2%	3%	10%
Rent	0%	0%	0%	1%
Advertising	0%	0%	0%	0%
Other Operating Income	0%	0%	0%	0%
Other Operating Expenses	0%	0%	0%	3%
Operating Profit	7%	10%	9%	5%
Interest Expense	0%	1%	1%	1%
Other Income	0%	0%	0%	0%
Other Expenses	0%	0%	0%	0%
Net Profit Before Taxes	7%	9%	8%	4%
Adjusted Net Profit Before Taxes	7%	9%	8%	4%
EBITDA	9%	11%	11%	6%
Taxes Paid	0%	0%	0%	2%
Extraordinary Gain	0%	0%	0%	0%
Extraordinary Loss	0%	0%	0%	0%
Net Income	7%	9%	8%	2%
Balance Sheet Data	**12/31/2013**	**12/31/2014**	**12/31/2015**	**Industry* (767)**
Cash (Bank Funds)	42%	21%	27%	5%
Accounts Receivable	0%	0%	1%	23%

Allowance for Doubtful Accounts	0%	0%	0%	0%
Inventory	57%	56%	61%	44%
Construction Machinery & Equipment Inventory	0%	0%	0%	53%
Mining Machinery & Equipment Inventory	0%	0%	0%	--
Loggin Machinery & Equipment Inventory	0%	0%	0%	--
Other Current Assets	0%	1%	1%	2%
Total Current Assets	100%	77%	90%	77%
Gross Fixed Assets	11%	33%	18%	43%
Accumulated Depreciation	11%	10%	9%	23%
Net Fixed Assets	0%	23%	10%	20%
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%	3%
Total Assets	100%	100%	100%	100%
Accounts Payable	0%	0%	0%	17%
Short Term Debt	37%	52%	54%	4%
Notes Payable / Current Portion of Long Term Debt	0%	0%	0%	6%
Other Current Liabilities	6%	1%	3%	9%
Total Current Liabilities	43%	54%	57%	43%
Notes Payable / Senior Debt	0%	5%	3%	13%
Notes Payable / Subordinated Debt	31%	20%	11%	0%
Other Long Term Liabilities	0%	0%	0%	1%
Total Long Term Liabilities	31%	25%	14%	25%
Total Liabilities	74%	79%	70%	68%
Preferred Stock	0%	0%	0%	0%
Common Stock	0%	0%	0%	0%
Additional Paid-in Capital	0%	0%	0%	0%
Other Stock / Equity	26%	21%	30%	2%
Ending Retained Earnings	0%	0%	0%	25%
Total Equity	26%	21%	30%	32%
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 423810 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	1.59	1.60 to 2.80	-0.63%

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	0.50	0.80 to 1.50	-37.50%

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
Inventory Days = (Inventory / Sales) * 365	87.36 Days	40.00 to 75.00 Days	-16.48%

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.

Note: Sales was used in this calculation instead of Cost of Sales because Cost of Sales was zero for the current period.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	1.35 Days	20.00 to 50.00 Days	+93.25%

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	0.00 Days	20.00 to 50.00 Days	--

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
Gross Profit Margin = Gross Profit / Sales	16.39%	24.00% to 35.00%	-31.71%

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).

Financial Indicator	Current Period	Industry Range	Distance from Industry
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	8.33%	0.50% to 6.00%	+38.83%

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
Advertising to Sales = Advertising / Sales	0.42%	0.50% to 2.00%	+16.00%

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
Rent to Sales = Rent / Sales	0.47%	0.80% to 3.50%	+41.25%

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
G & A Payroll to Sales = G & A Payroll Expense / Sales	2.93%	12.00% to 23.50%	+75.58%

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
Total Payroll to Sales	2.93%	--	--

= (Direct Labor + G & A Payroll Expense) / Sales

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

Interest Coverage Ratio = EBITDA / Interest Expense	13.74	3.00 to 10.00	+37.40%

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	2.38	1.50 to 4.00	0.00%

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.

Debt Leverage Ratio = Total Liabilities / EBITDA	2.41	--	--

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	72.33%	8.00% to 20.00%	+261.65%

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	21.37%	6.00% to 10.00%	+113.70%

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	13.91	9.00 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.

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.).