

Financial Management Solutions

Sample Business Check-up Financial Review: Prepared for Sample Auto Repair Business

Industry: 81112 - Automotive Body, Paint, Interior, and Glass Repair

Revenue: Less than \$1M

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



LIQUIDITY



Generally, what is the company's ability to meet obligations as they come due?

One of the difficulties with liquidity is that managers often do not think about it until there is a problem. The challenge is to monitor liquidity constantly even though it's a basic concept -- it simply measures a company's overall cash position.

Fortunately, it looks like this company is in a good liquidity position. Despite the fact that sales are down from last period, the company's liquidity position is very good. The strong increase in profits did not hurt this position. Furthermore, the company's liquidity position is even strong when looking at it by using multiple ratios and techniques. This means that the company has solid strength in its base, which is excellent. One solid way to keep building liquidity in the future is to keep moving up profits.

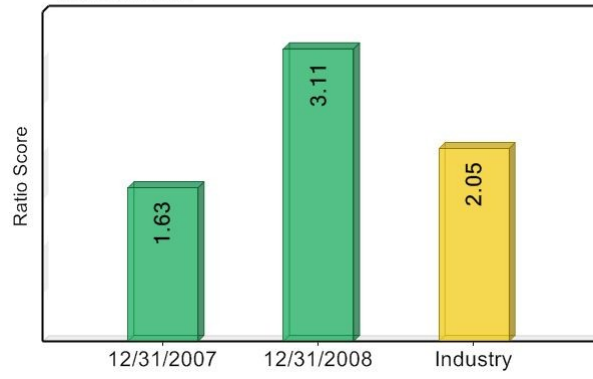
Tips For Improvement

It is imperative to keep working on liquidity, because the game to stay liquid never ends. Here are some actions managers might consider:

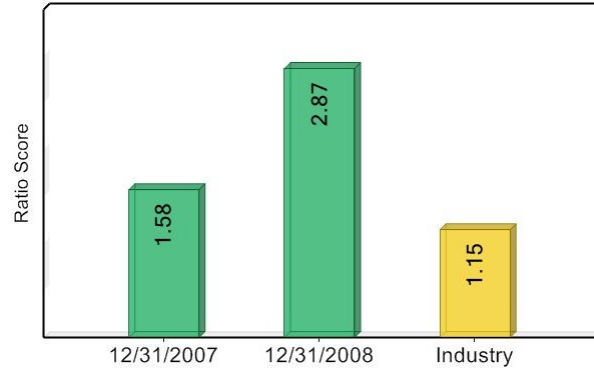
- Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process which can significantly improve the firm's cash position.
- Set longer terms for Accounts Payable when possible. For example, increase a 30 day payment window to 60 days.
- Accept multiple forms of payment, such as credit and debit cards, to help cut down on the number of denied payments (bad checks). This helps to ensure that a business is collecting all of the money it is owed.
- Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.

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.

Current Ratio



Quick Ratio



PROFITS & PROFIT MARGIN



Are profitability trends favorable in the company?

The company has achieved good results in this area of the report. Both gross profit margins and net profit margins have increased from last period. It seems that the company is managing direct costs and operating expenses effectively. It was important to manage costs better, because sales fell from last period, which resulted in unchanged gross profits (in dollars). The company made up for lower sales with very good expense management. Essentially, managers increased net profits in this case by cutting some costs.

From an overall perspective, **net profit margins are above average compared to other companies in this industry.** In fact, **net profits are strong overall.** The company is simply doing well in this section of the report. Achieving and then keeping a healthy net profit level is fundamental to all other financial areas. No profit statistic is more important.

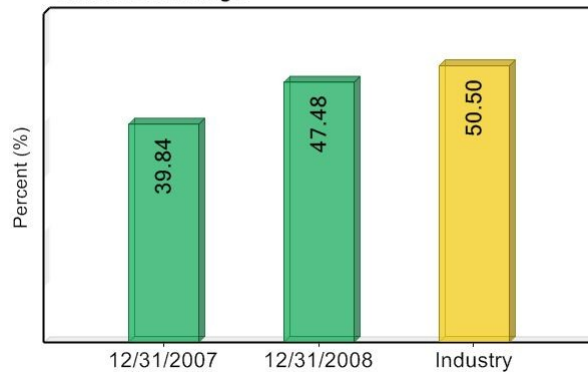
Managers may now want to focus on "pushing" sales higher while maintaining the better gross and net profit margins. Managers might be able to invest money in marketing efforts to boost revenues, since the company seems to have good general profit health. The advantage to having better margins is to have the flexibility to invest money back into the growth of the company. In short, managers may want to leverage the high net profits to boost performance in every other area.

Tips For Improvement

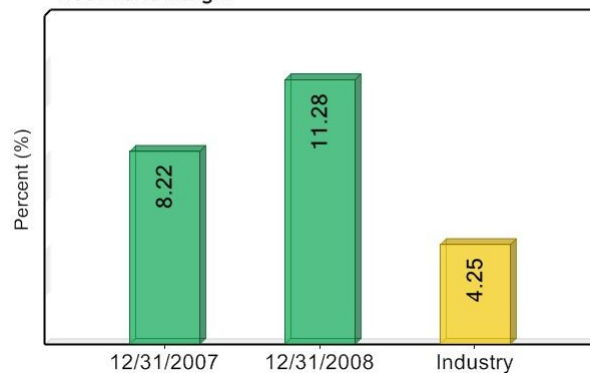
The following ideas to improve profitability might be useful and can be thought-through by managers:

- Implement an energy management system to help you control utility costs. This may include automated lights and thermostats, periodically examining air compressors for leaks, and/or hiring a consultant to perform an energy audit.
- Use updated diagnostic tools to assess maintenance problems. This will enable you to decrease time wasted on wrong diagnoses and increase the number of vehicles you can service in a given period.
- 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.
- 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.

Gross Profit Margin



Net Profit Margin



SALES



Are sales growing and satisfactory?

Sales have fallen, which has already been mentioned. As discussed in the Profitability section, sales changes in themselves are typically not vital analytical points. Profitability trends are more important. Still, the clear goal over time is to increase sales since the cost of doing business almost always goes up over the long run. Notice, too, that the fixed asset base has stayed relatively flat. This dynamic could harm profitability over time if sales continue to decline.

BORROWING



Is the company borrowing profitably?

In this case, the company **generated better profitability with less debt on the books**. An additional positive point is that profit margins have improved, too. It seems like this could be a good time to build the business, gain more efficiencies, try to improve overall liquidity, and reinvest any savings in long-term profitability generators such as advertising, employee benefits, etc. Over time, generating better profitability on a lower debt level is a good way to lower costs in the company and boost long-term profitability.

ASSETS



Is the company using gross fixed assets effectively?

These results are interesting: the fixed asset base stayed about the same, but net profitability improved. In other words, the company did not buy additional assets during the period, but improved the bottom line. The conclusion here is that the company did not need any more assets to improve profitability for this period. **As long as the company can keep improving profitability, it may not be beneficial to buy more assets for the present time.** This idea is further supported by the fact that the company was also able to improve both overall liquidity and net profit margins, which indicates that overall financial health and efficiency are improving. Given these results, it does not seem that company would have sufficient reason to add risk and cost to the company right now in the form of additional assets.

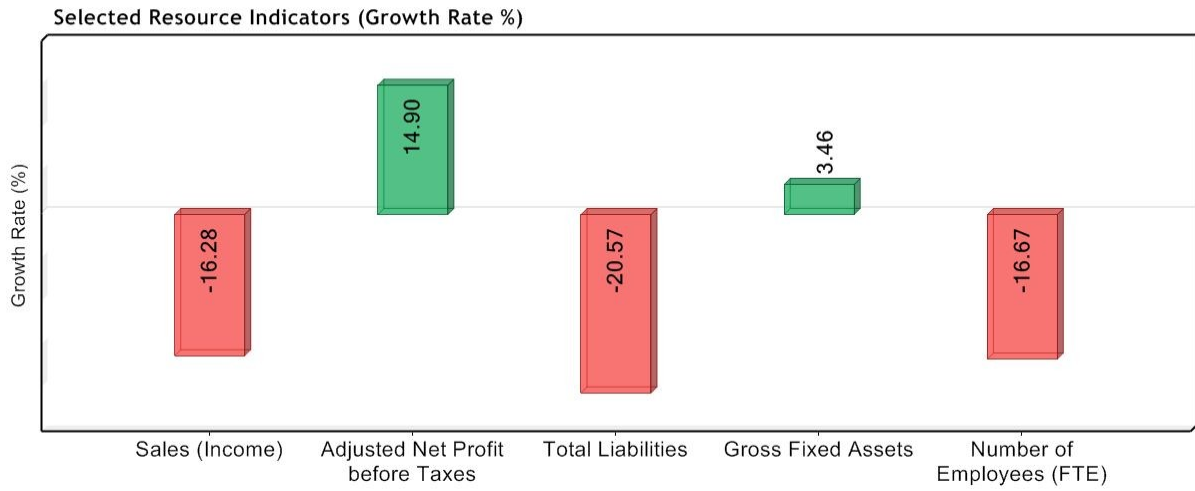
EMPLOYEES



Is the company hiring effectively?

The company has fewer people on staff but is actually improving net profitability. This is a positive situation. In a direct way, the company may actually benefit from having fewer people because it was able to improve net profitability on a leaner employee base. At least this analysis may hold true in the short run. Ideally, each employee should be helping to improve net profitability. In the immediate future, managers **may** be somewhat reluctant to hire more people if the company can continue to improve net profitability without them. In other words, the financial data does not suggest that it is currently necessary to hire more employees in order to improve profitability. Of course, there is no substitute for good planning in this area. Managers should not make any quick decisions without some quality thinking about company objectives and the labor requirements to reach those objectives. In short, these results are good, but this analysis is based upon past data. Good decisions are based upon an analysis of the future.

"If you took away all my skills but one, I would most like to retain my ability to select people. Everything I have is the result of assembling the right team." --- Andrew Carnegie



A NOTE ON SCORING: Each section of this report (Liquidity, Profits & Profit Margin, etc.) contains a star rating which measures the company's overall performance in the area at the time of the report's generation. One star indicates that the company is below average or may possibly need improvement in the area. Three stars indicate that the company is about average for the area. Five stars indicate that the company is above average or performing quite well in the area.

RAW DATA

	12/31/2007	12/31/2008
Income Statement Data		
Sales (Income)	\$305,981	\$256,175
Cost of Sales (COGS)	\$184,079	\$134,540
Gross Profit	\$121,902	\$121,635
Gross Profit Margin	39.84%	47.48%
Net Profit before Taxes	\$25,147	\$28,893
Adjusted Net Profit before Taxes	\$25,147	\$28,893
Net Profit Margin	8.22%	11.28%
Balance Sheet Data		
Cash (Bank Funds)	\$98,469	\$108,211
Accounts Receivable	\$0	\$0
Total Current Assets	\$101,801	\$117,155
Gross Fixed Assets	\$169,455	\$175,325
Total Assets	\$348,951	\$323,710
Total Current Liabilities	\$62,354	\$37,694
Total Liabilities	\$167,878	\$133,346
Number of Employees (FTE)	6.0	5.0

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.).

