Performance Review

For the period ended 12/31/2019

Provided By

Turtle Bay CPA

Your name here
888-635-8899

Disclaimer

The information included in the following comparative financial evaluation is presented only for supplementary analysis and discussion purposes. Such information is presented for internal management use only and is not intended for third parties. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Financial Score

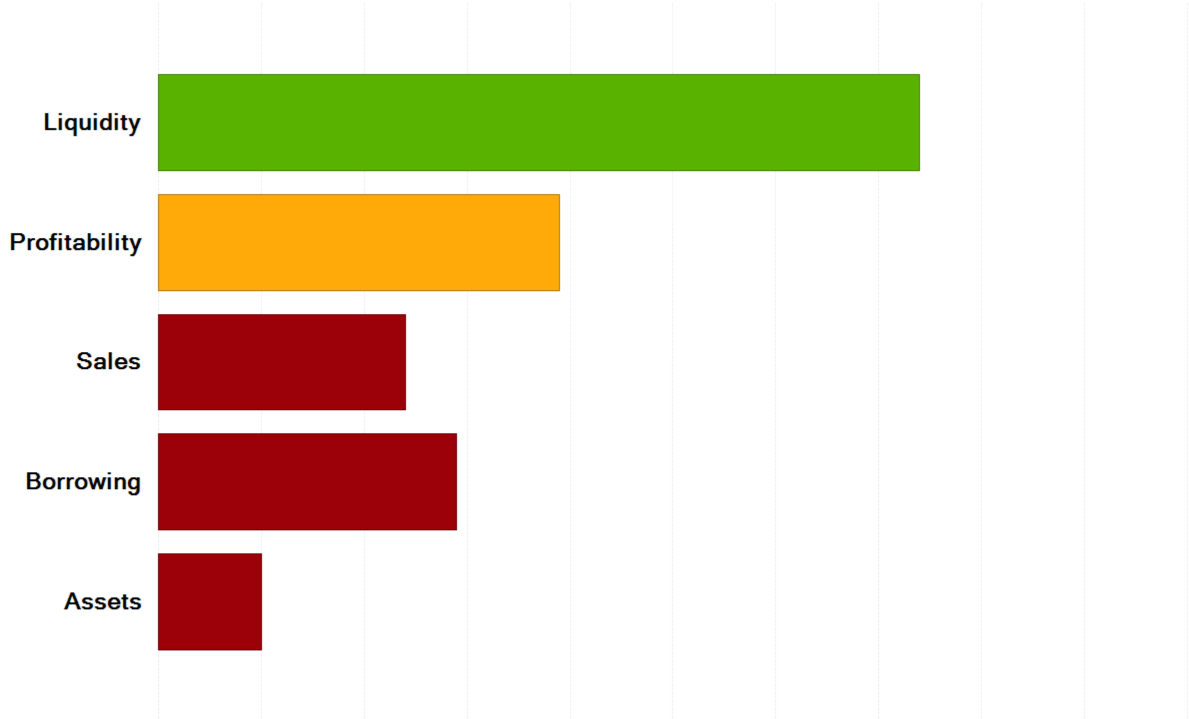
Narrative Report

Industry: 332811 - Metal Heat Treating

Sales Range: Yearly sales $1 Million to $10 Million

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

Report Summary



Liquidity

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

Operating Cash Flow Results
Cash flow is negative and has declined relative to sales since last period, despite the company generating moderate profits. Has the company had any one-time changes in working capital accounts over the period that may have affected cash flow? These results should not cause too much concern, particularly if they are isolated to this period, as overall liquidity still appears very solid.

General Liquidity Conditions
The company's liquidity position is strong and has been maintained since last period. Because this position is so solid, the fact that the net income margin decreased has not affected liquidity at this time. Be aware, however, that having a healthy net income margin is the best way for any company to keep liquidity strong over the long run. It should also be noted that the firm's liquidity position is currently "strong" even relative to the industry. This superior liquidity can be used to fund investments, which can ultimately help the company to gain a competitive advantage within the industry.

One final thing to note in the liquidity area is that the company’s accounts payable days ratio looks low, which suggests that the company may be paying bills/payables a bit quickly.

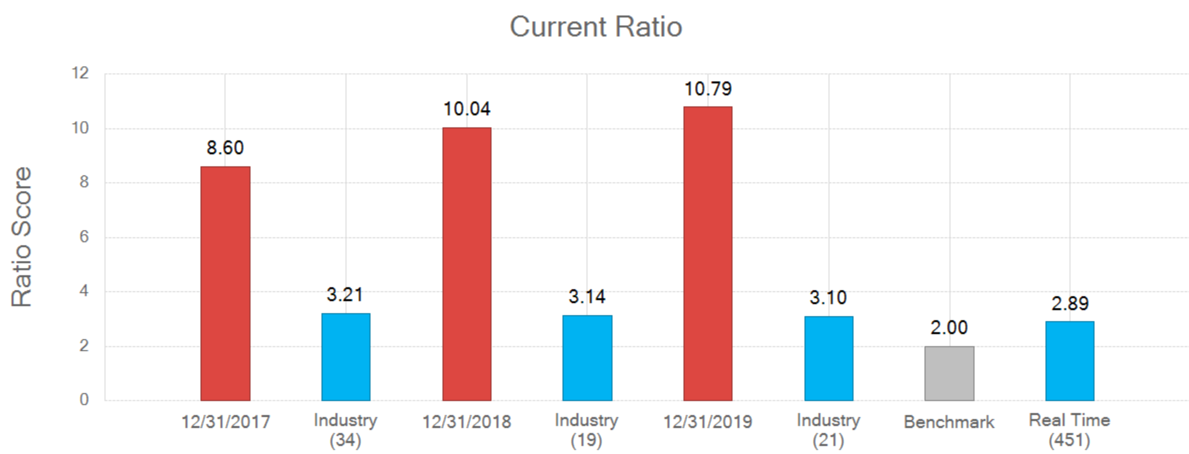
However, creditors will typically like to see a low accounts payable days number (over time, it generally reflects payment strength).

Tips For Improvement

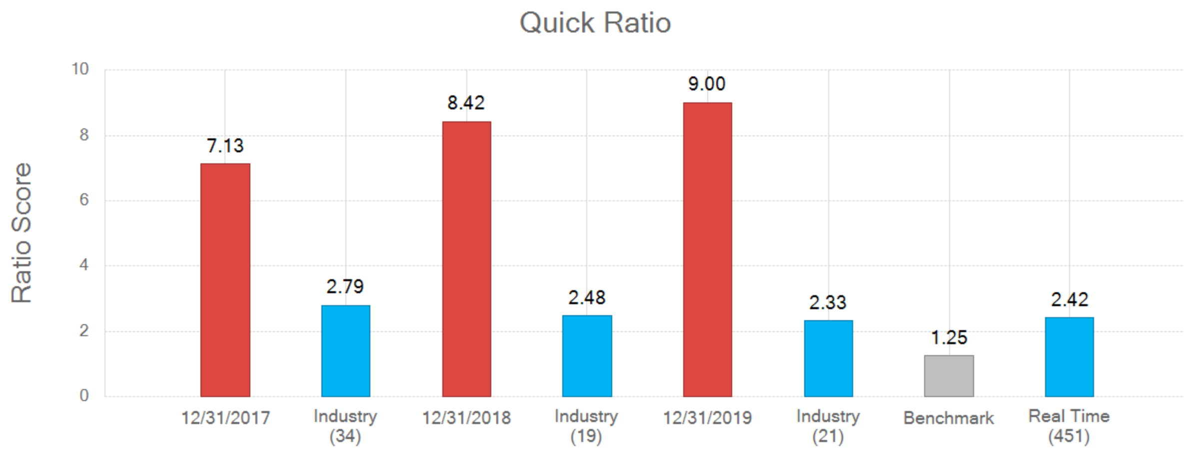
The challenge of maintaining liquidity never goes away. Managers might employ the following to either maintain or improve liquidity conditions over time:

- Structure accounts receivable properly. Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. There is often no good reason to treat all customers the same here. Be selective in choosing which customers will receive any credit at all. Make sure giving credit will increase revenues and income.
- Discover ways to receive returns on excess cash balances. For example, set up a "sweep" account at the bank so that interest can be earned on any excess funds in the checking account. These accounts allow the business to transfer funds overnight into an account that earns more interest.
- Bill customers more quickly in order to speed up the collection process (billing cycle) and get funds into the business faster. If customers are billed, on average, even three days earlier each month, the business's cash position can improve significantly.
- 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.

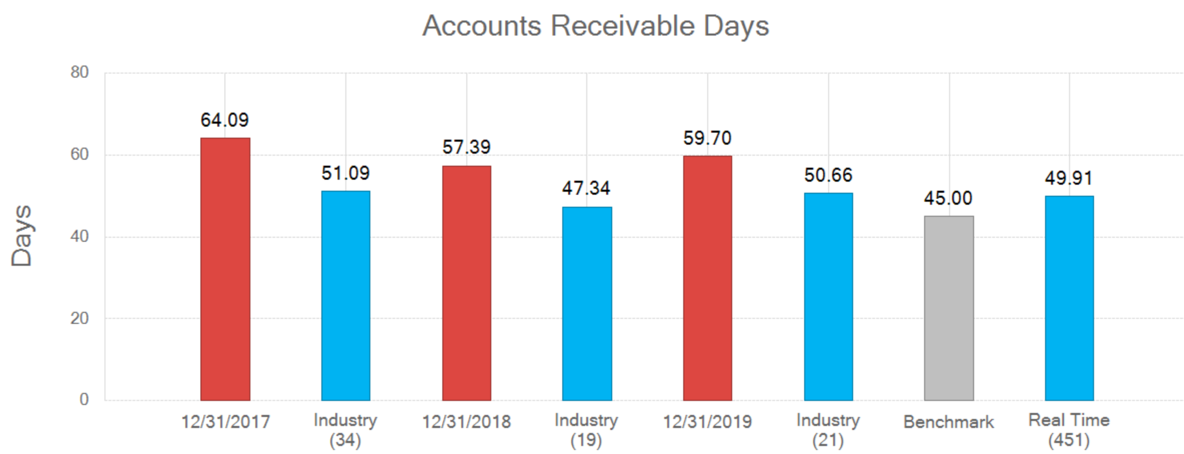
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



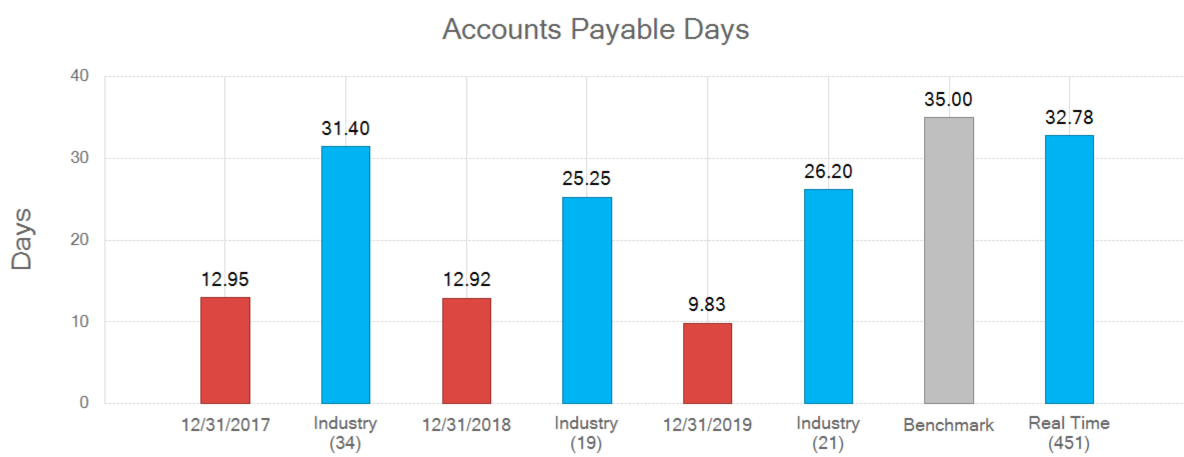
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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

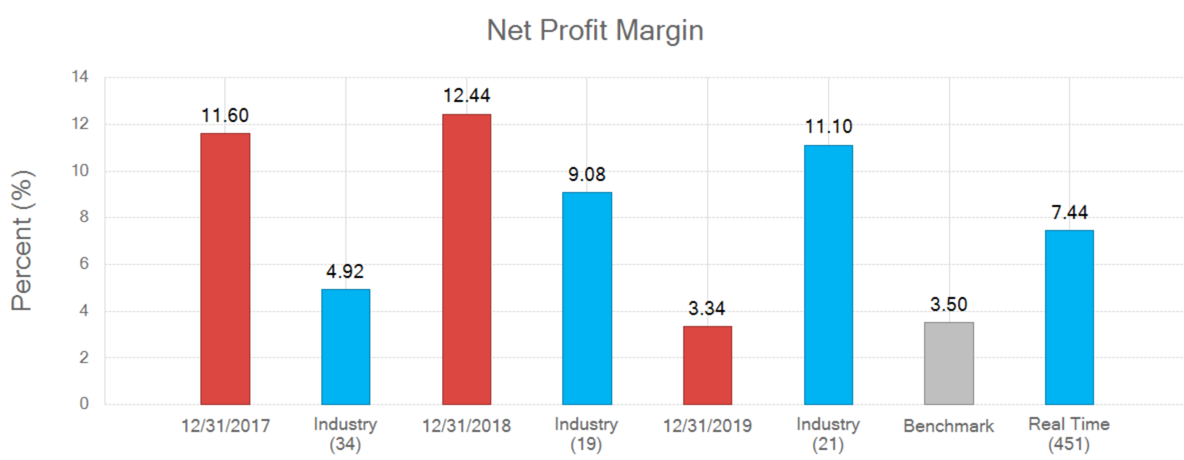
A measure of whether the trends in profit are favorable for the company.

The company's sales have fallen a bit since last period, and its net profit dollars have declined as well. Additionally, the company's net profit margin, which measures the cents of net profit that the company earns on every dollar it generates in sales, has declined by 73.14%. This may cause managers some concern: the company is both generating less revenue that it did last period, and it is managing that revenue less effectively than it has in the past. The company's expenses have grown relative to its sales, and the result has been a decline in net margin; it appears that the company may have lost some efficiency since the prior period.

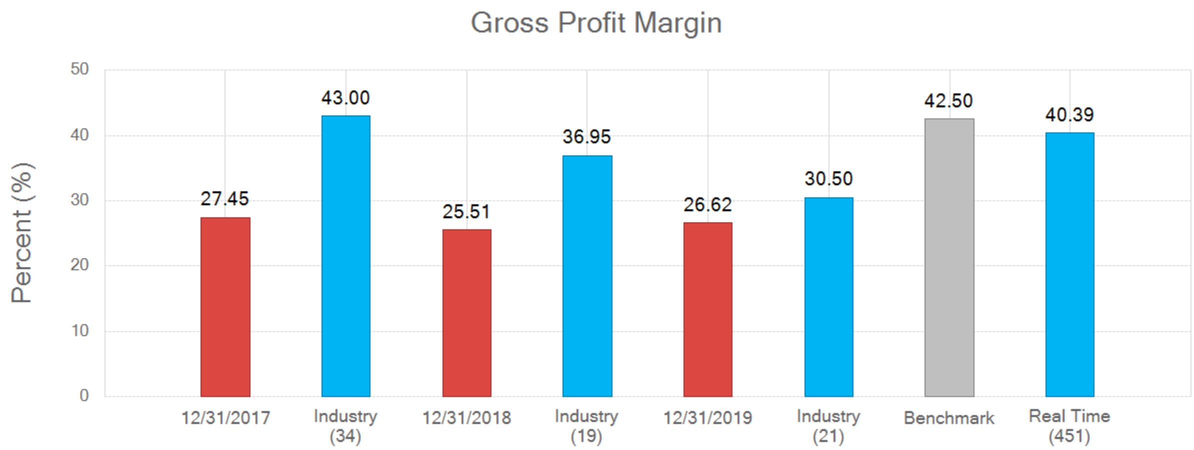
Despite the decline, the company's net profit margin is still fairly solid. The net margin is about average when compared to what other companies in this industry are generating; this is illustrated in the graph area of the report. While having an average net margin and average profits is certainly not bad, it is not excellent either. A good goal for the company at this time might be to increase its net margin to an above-average level by increasing sales and controlling expenses. Companies that generate high margins and profits generally see improvements in other areas of their business, such as increased liquidity and returns on equity and assets.

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

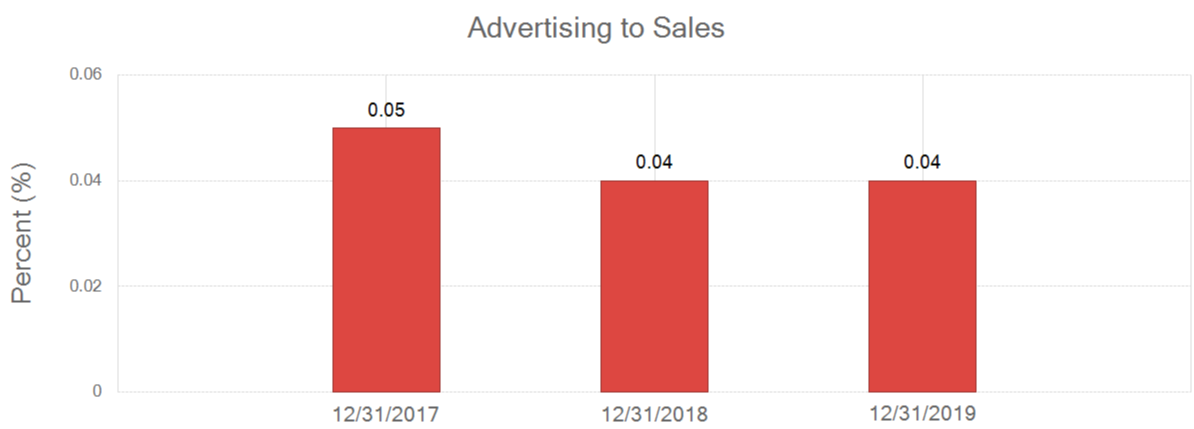
- Keep track of all costs when billing. Include a portion of overhead to help ensure that the business is covering all expenses associated with operations.
- Work to establish clear and consistent identifiers so customers can quickly recognize the business. Each forum where the business features itself should help customers quickly identify the business and its offerings.
- 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. Meet with insurance agents to determine ways to reduce costs by evaluating coverage and deductibles.
- Use industry experts and consultants to help you improve your business. People with long experience in an industry can save you years of time by leveraging their knowledge. Industry consultants can be found in trade journals and magazines.



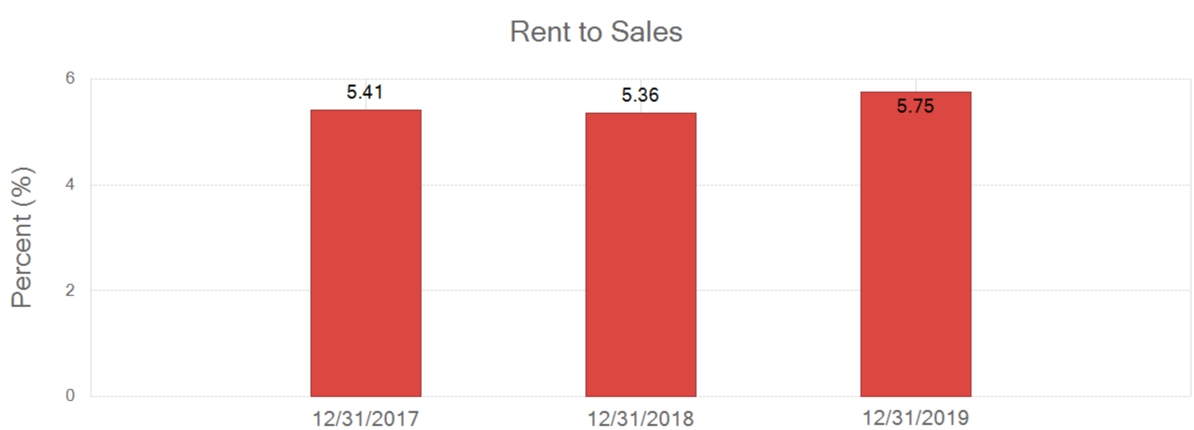
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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



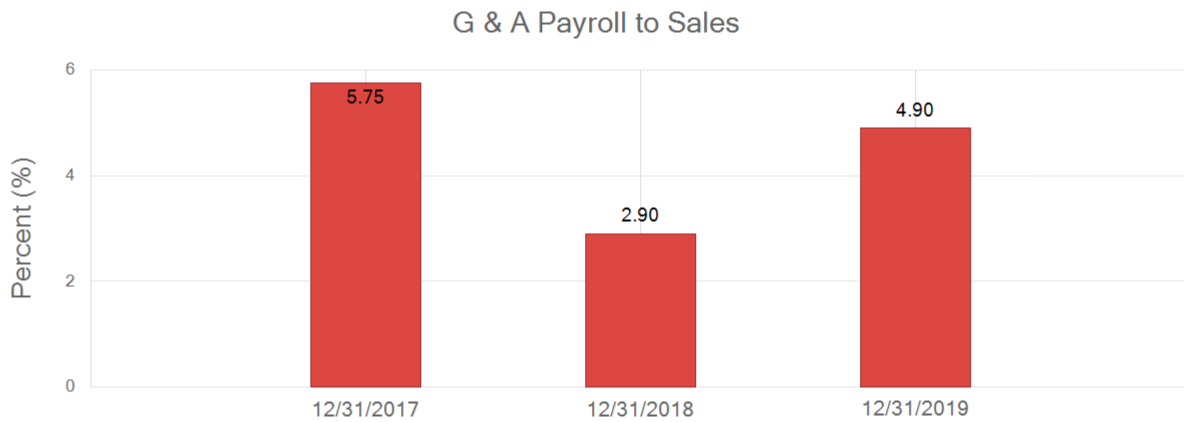
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better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



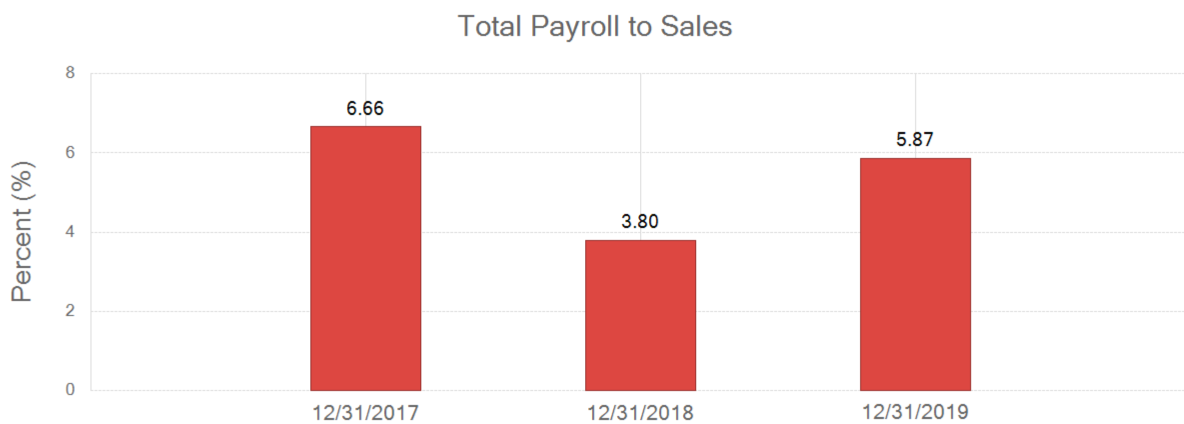
This metric shows advertising expense for the company as a percentage of sales.



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



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

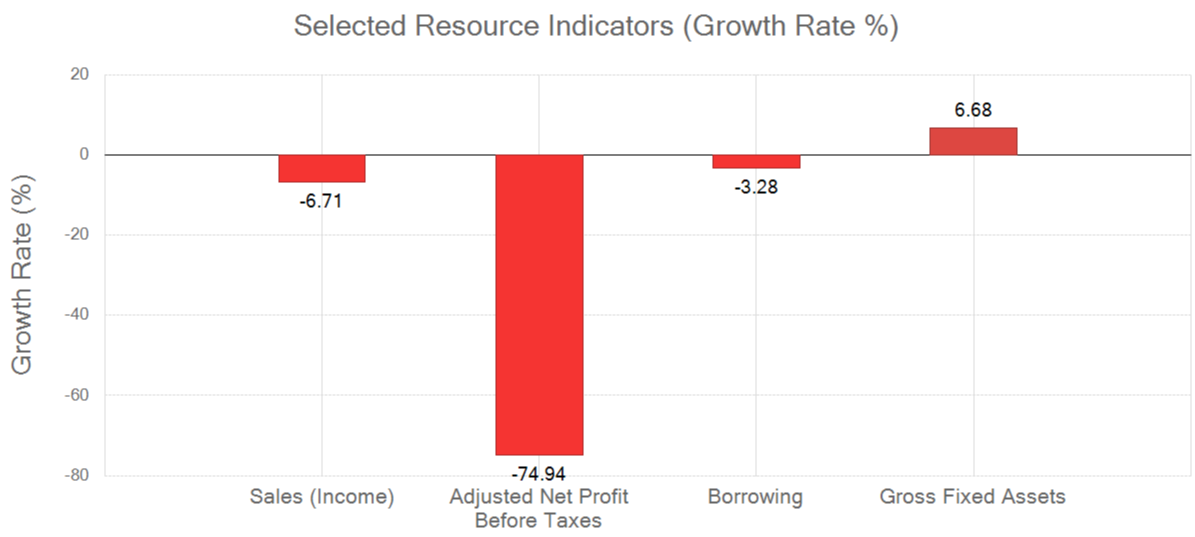


This metric shows total payroll expense for the company as a percentage of sales.

Sales

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

Sales are down from last period, which has already been discussed. However, it should be noted that sales went down at the same time that management bought fixed assets. Generally, it is important to increase revenue as assets increase, because new assets have to be paid for from the collection of sales dollars. It could be that management just made an investment in assets to provide **long-term** sales, but this situation is still worth noting. Profitability trends are more important than sales, but companies clearly prefer to see higher sales as resources are added.



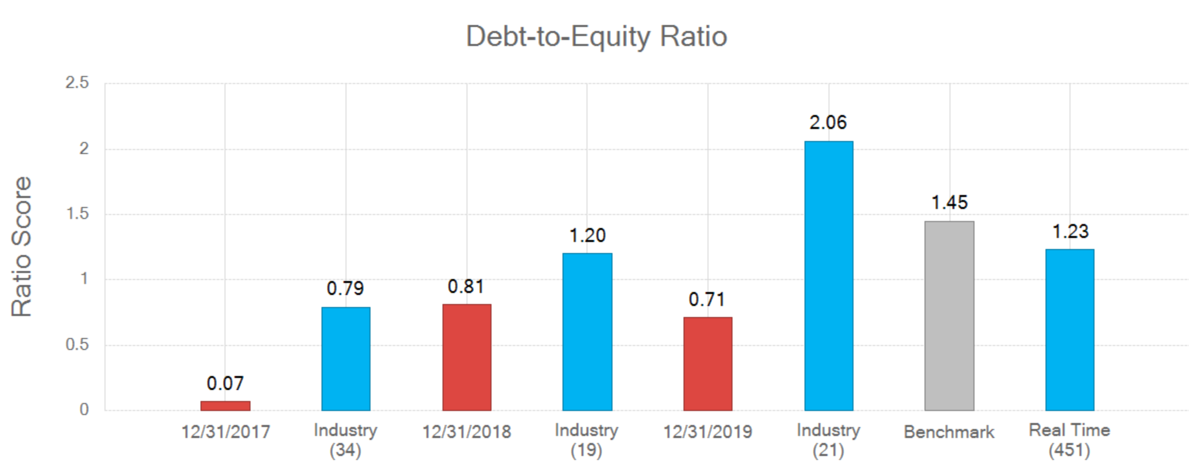
This data is based on the two most recent available periods.

Borrowing

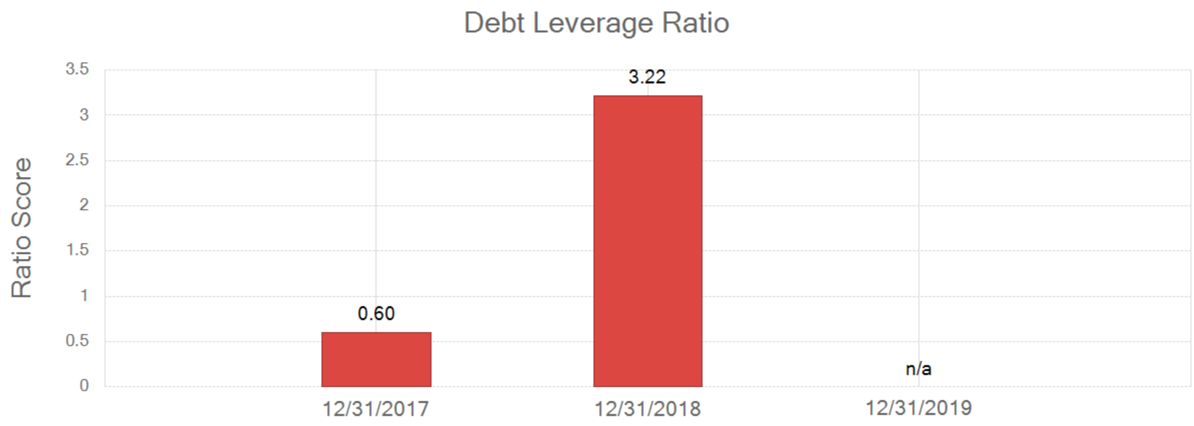
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

The purpose of using debt is to improve profitability. If this can be accomplished, the company can "trade on equity" -- the company can improve returns on the business (improve returns on equity). This is often easy to understand but difficult to do. For example, the issue here is that total debt stayed about the same as last period, but profitability decreased by 74.94%. It is also worth noting the decline in net profit margins. It is typically best to improve the amount of profitability generated on existing debt resources over time. Even though these results did not diminish the overall liquidity position, the dynamics here are still not favorable for this specific period.

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 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.



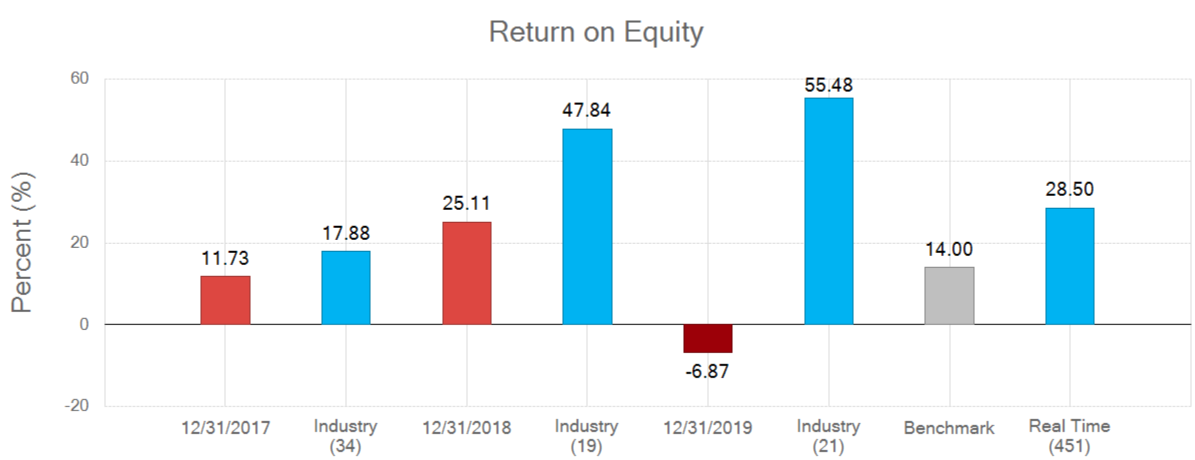
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Assets

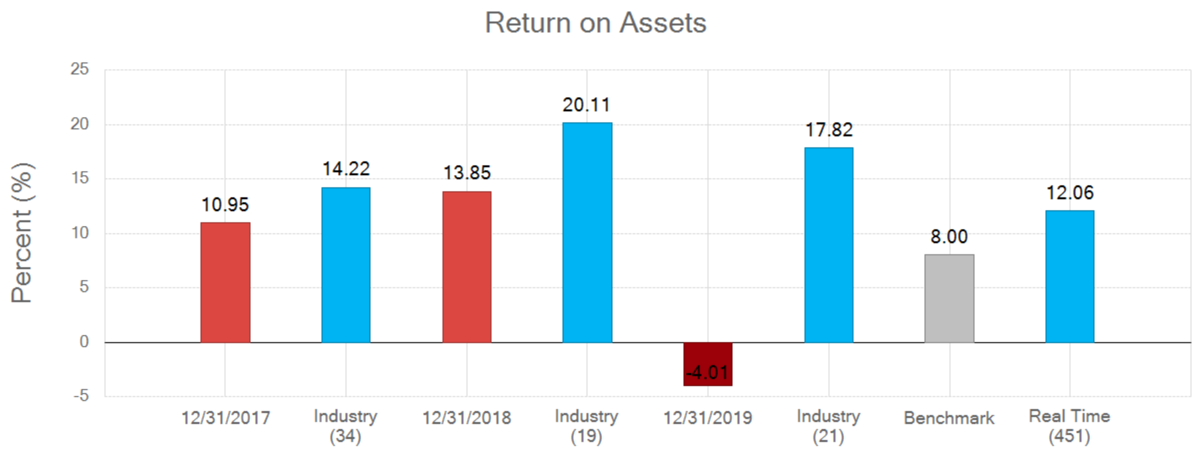
A measure of how effectively the company is utilizing its gross fixed assets.

There is generally no advantage to investing in additional assets if they will not help improve profitability. Even small increases in fixed assets should improve profitability, at least over the long run. However, this is not the case here, at least as of yet. For this company, even though some assets were added, profitability actually fell by 74.94%. In future periods, the company will want to make sure that the assets added yield sufficient long-run returns. This is particularly true when net profit margins (an efficiency measure) are down, which is the case here. Asset additions should yield better margins over time.

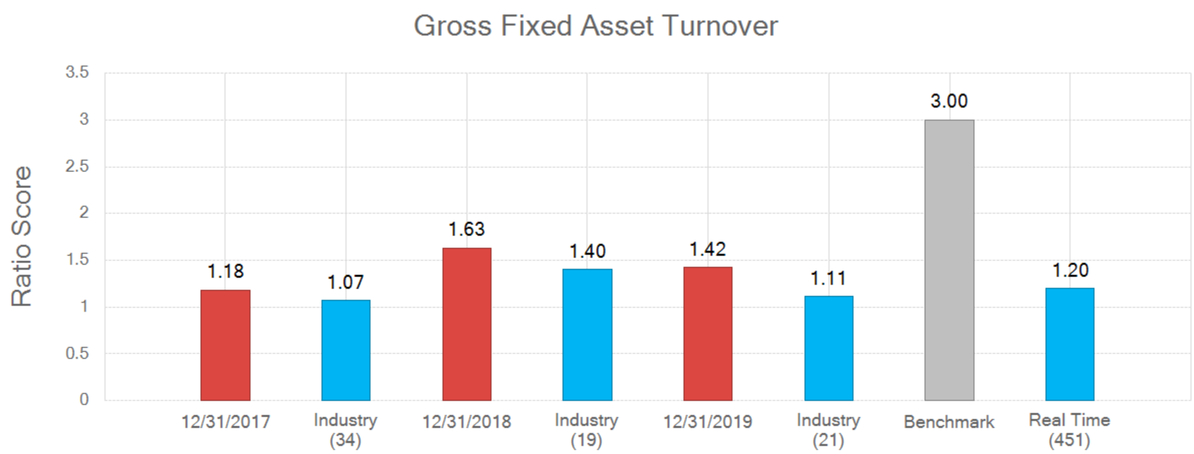
The company appears to be managing its assets poorly. It generated poor returns on its assets and equity this period, which is a negative result. Over the long run, investors and creditors like to see higher returns on their investment.



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.

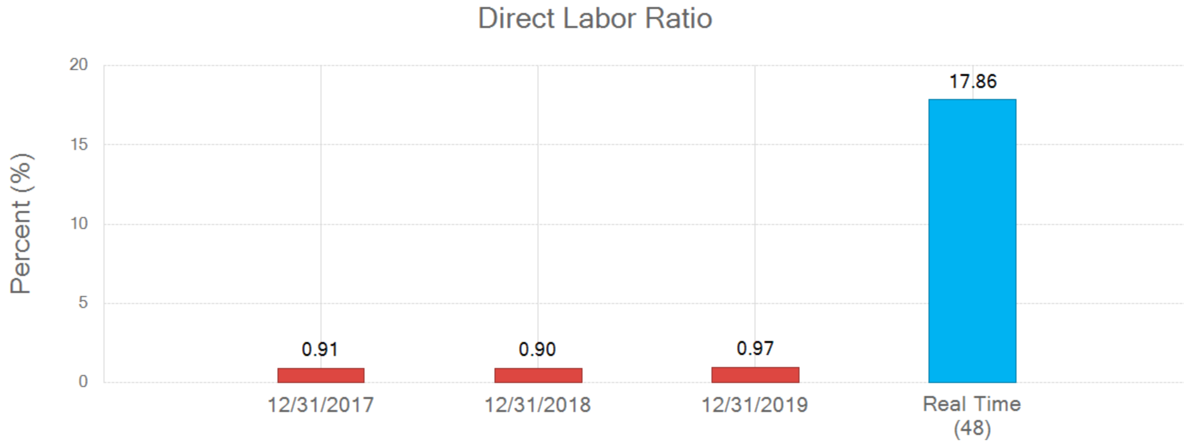


This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize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

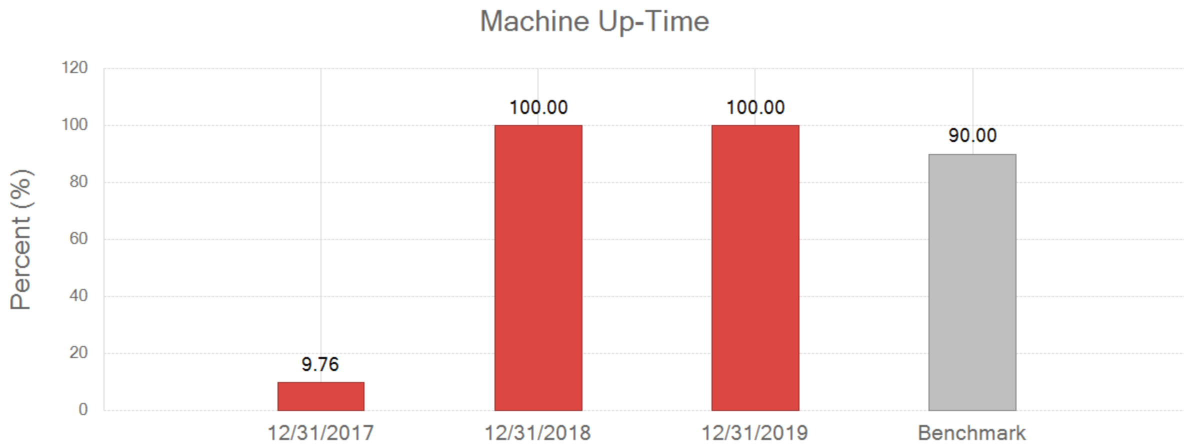
Industry-Specific Performance Ratios

What are the Key Performance Indicators for the business?

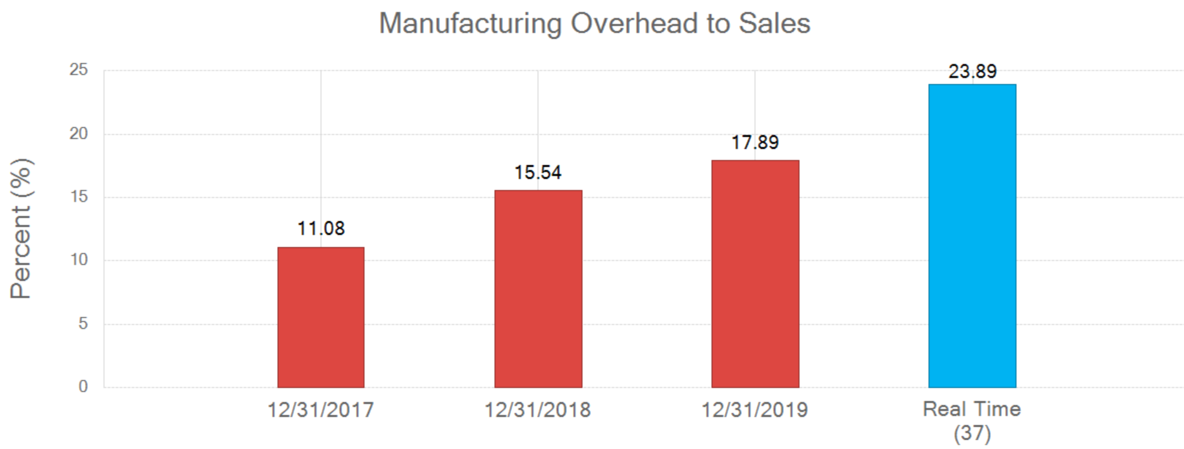
This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve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



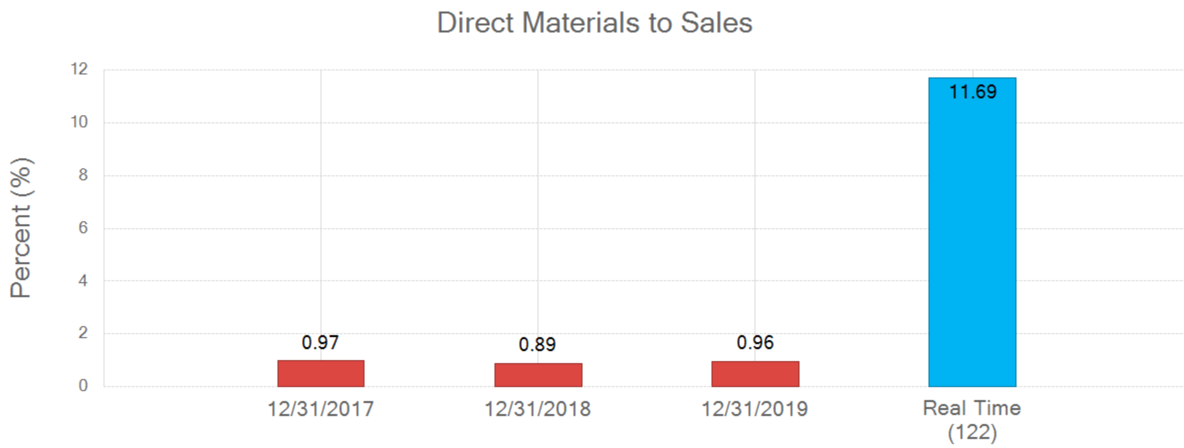
Direct Labor Ratio = Direct Labor / Sales



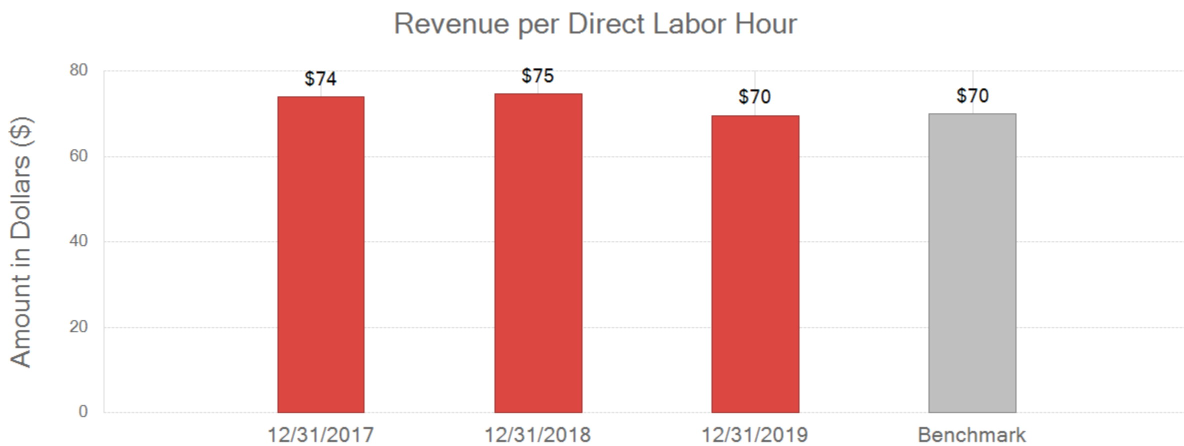
Machine Up-Time = Machine Production Time / Plant Operating Hours



Manufacturing Overhead to Sales = Manufacturing Overhead / Sales



Direct Materials to Sales = Direct Materials / Sales



Revenue per Direct Labor Hour = Sales / Direct Labor Hours

Raw Data

Income Statement Data	12/31/2017	12/31/2018	12/31/2019
Sales (Income)	$4,437,688	$4,475,041	$4,174,766
Sales	$4,437,688	$4,475,041	$4,174,766
Cost of Sales (COGS)	$3,219,430	$3,333,382	$3,063,632
Depreciation (COGS-related)	$1,215	$1,191	$1,816
Direct Materials	$43,000	$40,000	$40,000
Manufacturing Overhead	$491,699	$695,568	$747,000
Direct Labor	$40,415	$40,375	$40,458
Cost of Sales	$2,600,369	$2,385,817	$2,000,100
Adjusters' salaries	$0	$0	$0
Subcontractors	$0	$0	$0
Depreciation	$42,732	$170,431	$234,258
Gross Profit	$1,218,258	$1,141,659	$1,111,134
Gross Profit Margin	27.45%	25.51%	26.62%
Depreciation	$0	$0	$0
Amortization	$0	$0	$0
Overhead or S,G,& A Expenses	$991,854	$764,563	$1,154,118
G & A Payroll Expense	$254,955	$129,865	$204,752
Rent	$240,000	$240,000	$240,000
Advertising	$2,114	$1,805	$1,485
Overhead or S G & A Expenses	$494,300	$390,864	$706,414
Repairs and maintenance	$485	$2,029	$1,467
Other Operating Income	$72,000	$42,191	$24,343
Other Operating Expenses	$79,710	$97,093	$122,795
Operating Profit	$218,694	$322,194	($141,436)
Interest Expense	$0	$0	$0
Other Income	($3,529)	$58,080	$36,628
Refunds	$0	$0	$0
Other Income	($3,529)	$58,080	$36,628
Interest Income	$0	$0	$0
Other Expenses	($84,851)	$58,809	($7,588)
Net Profit Before Taxes	$300,016	$321,465	($97,220)
Adjusted Owner's Compensation	$214,900	$235,324	$236,756
Adjusted Net Profit Before Taxes	$514,916	$556,789	$139,536
Net Profit Margin	11.60%	12.44%	3.34%
EBITDA	$301,231	$322,656	($95,404)
Taxes Paid	$0	$0	$0
Extraordinary Gain	$0	$0	$0
Extraordinary Loss	$0	$0	$0
Net Income	$300,016	$321,465	($97,220)

Balance Sheet Data	12/31/2017	12/31/2018	12/31/2019
Cash (Bank Funds)	$518,402	$894,694	$718,224
Cash	$518,402	$894,694	$718,224
Cash and Cash Equivalents	$0	$0	$0
Accounts Receivable	$779,171	$703,660	$682,842
Inventory	$0	$0	$0
Other Current Assets	$267,359	$307,639	$279,969
Restricted Cash	$0	$0	$0
Other Current Assets	$267,359	$307,639	$279,969
Total Current Assets	$1,564,932	$1,905,993	$1,681,035
Gross Fixed Assets	$3,755,838	$2,750,837	$2,934,720

Accumulated Depreciation	$3,125,687	$2,380,527	$2,538,108
Net Fixed Assets	$630,151	$370,310	$396,612
Gross Intangible Assets	$0	$0	$0
Accumulated Amortization	$0	$0	$0
Net Intangible Assets	$0	$0	$0
Other Assets	$543,900	$44,350	$344,400
Deposits	$0	$0	$0
Loan due from Stockholders	$0	$0	$0
Other Assets	$543,900	$44,350	$344,400
Total Assets	$2,738,983	$2,320,653	$2,422,047
Accounts Payable	$114,184	$118,035	$82,496
Short Term Debt	$0	$0	$0
Notes Payable / Current Portion of Long Term Debt	$0	$0	$0
Other Current Liabilities	$67,864	$71,814	$73,228
Other Current Liabilities	$67,864	$71,814	$73,228
Insurance escrow liabilities - restricte	$0	$0	$0
Total Current Liabilities	$182,048	$189,849	$155,724
Notes Payable / Senior Debt	$0	$0	$0
Notes Payable / Subordinated Debt	$0	$850,651	$850,651
Other Long Term Liabilities	$0	$0	$0
Total Long Term Liabilities	$0	$850,651	$850,651
Total Liabilities	$182,048	$1,040,500	$1,006,375
Preferred Stock	$0	$0	$0
Common Stock	$4,454	$4,454	$4,454
Additional Paid-in Capital	$0	$0	$0
Other Stock / Equity	$0	$0	$0
Other Stock / Equity	$0	$0	$0
Beginning Retained Earnings	$0	$0	$0
Ending Retained Earnings	$2,552,481	$1,275,699	$1,411,218
Ending Retained Earnings	$2,552,481	$1,275,699	$1,411,218
Total Equity	$2,556,935	$1,280,153	$1,415,672
Total Liabilities + Equity	$2,738,983	$2,320,653	$2,422,047

Common Size Statements

Income Statement Data	12/31/2017	12/31/2018	12/31/2019	Industry* (451)
Sales (Income)	100%	100%	100%	100%
Sales	100%	100%	100%	--
Cost of Sales (COGS)	73%	74%	73%	60%
Depreciation (COGS-related)	0%	0%	0%	5% (127)
Direct Materials	1%	1%	1%	9% (88)
Manufacturing Overhead	11%	16%	18%	24% (37)
Direct Labor	1%	1%	1%	18% (48)
Cost of Sales	59%	53%	48%	--
Adjusters' salaries	0%	0%	0%	--
Subcontractors	0%	0%	0%	--
Depreciation	1%	4%	6%	--
Gross Profit	27%	26%	27%	40%

Depreciation	0%	0%	0%	2%
Amortization	0%	0%	0%	0%
Overhead or S,G,& A Expenses	22%	17%	28%	26%
G & A Payroll Expense	6%	3%	5%	14% (302)
Rent	5%	5%	6%	3% (235)
Advertising	0%	0%	0%	0% (175)
Overhead or S G & A Expenses	11%	9%	17%	--
Repairs and maintenance	0%	0%	0%	--
Other Operating Income	2%	1%	1%	0%
Other Operating Expenses	2%	2%	3%	4%
Operating Profit	5%	7%	-3%	9%
Interest Expense	0%	0%	0%	1%
Other Income	0%	1%	1%	0%
Refunds	0%	0%	0%	--
Other Income	N/A	1%	1%	--
Interest Income	0%	0%	0%	--
Other Expenses	-2%	1%	0%	0%
Net Profit Before Taxes	7%	7%	-2%	7%
Adjusted Owner's Compensation	5%	5%	6%	0%
Adjusted Net Profit Before Taxes	12%	12%	3%	7%
EBITDA	7%	7%	-2%	11%
Taxes Paid	0%	0%	0%	2%
Extraordinary Gain	0%	0%	0%	0%
Extraordinary Loss	0%	0%	0%	0%
Net Income	7%	7%	-2%	5%

Balance Sheet Data	**12/31/2017**	**12/31/2018**	**12/31/2019**	**Industry* (451)**
Cash (Bank Funds)	19%	39%	30%	7%
Cash	19%	39%	30%	--
Cash and Cash Equivalents	0%	0%	0%	--
Accounts Receivable	28%	30%	28%	22%
Inventory	0%	0%	0%	1%
Other Current Assets	10%	13%	12%	2%
Restricted Cash	0%	0%	0%	--
Other Current Assets	10%	13%	12%	--
Total Current Assets	57%	82%	69%	40%
Gross Fixed Assets	137%	119%	121%	122%
Accumulated Depreciation	114%	103%	105%	72%
Net Fixed Assets	23%	16%	16%	50%
Gross Intangible Assets	0%	0%	0%	0%
Accumulated Amortization	0%	0%	0%	0%
Net Intangible Assets	0%	0%	0%	0%
Other Assets	20%	2%	14%	11%
Deposits	0%	0%	0%	--
Loan due from Stockholders	0%	0%	0%	--

Other Assets	20%	2%	14%	--
Total Assets	100%	100%	100%	100%
Accounts Payable	4%	5%	3%	7%
Short Term Debt	0%	0%	0%	0%
Notes Payable / Current Portion of Long Term Debt	0%	0%	0%	4%
Other Current Liabilities	2%	3%	3%	5%
Other Current Liabilities	2%	3%	3%	--
Insurance escrow liabilities - restricte	0%	0%	0%	--
Total Current Liabilities	7%	8%	6%	21%
Notes Payable / Senior Debt	0%	0%	0%	27%
Notes Payable / Subordinated Debt	0%	37%	35%	0%
Other Long Term Liabilities	0%	0%	0%	3%
Total Long Term Liabilities	0%	37%	35%	39%
Total Liabilities	7%	45%	42%	59%
Preferred Stock	0%	0%	0%	0%
Common Stock	0%	0%	0%	1%
Additional Paid-in Capital	0%	0%	0%	1%
Other Stock / Equity	0%	0%	0%	1%
Other Stock / Equity	0%	0%	0%	--
Beginning Retained Earnings	0%	0%	0%	--
Ending Retained Earnings	93%	55%	58%	33%
Ending Retained Earnings	93%	55%	58%	--
Total Equity	93%	55%	58%	41%
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 332811 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	10.79	1.40 to 2.60	+315.00%

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	9.00	0.90 to 1.60	+462.50%

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.

Net Profit Margin = Adjusted Net Profit before Taxes / Sales	3.34%	2.00% to 5.00%	0.00%

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.

Accounts Receivable Days = (Accounts Receivable / Sales) * 365	59.70 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	9.83 Days	20.00 to 50.00 Days	+50.85%

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.

Debt-to-Equity Ratio = Total Liabilities / Total Equity	0.71	0.90 to 2.00	+21.11%

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	-6.87%	8.00% to 20.00%	-185.88%

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	-4.01%	6.00% to 10.00%	-166.83%

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	1.42	2.00 to 4.00	-29.00%

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	26.62%	35.00% to 50.00%	-23.94%

= Gross Profit / Sales

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).

Advertising to Sales = Advertising / Sales	0.04%	--	--

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

Rent to Sales = Rent / Sales	5.75%	--	--

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

G & A Payroll to Sales = G & A Payroll Expense / Sales	4.90%	--	--

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	5.87%	--	--

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

Z-Score	3.13	1.23 to 2.90	+7.93%

= (0.717 * X1 + 0.847 * X2 + 3.107 * X3 + 0.42 * X4 + 0.998 * X5) X1 = (Current Assets - Current Liabilities) / Total Assets; X2 = Retained Earnings / Total Assets; X3 = EBIT / Total Assets; X4 = Total Equity / Total Liabilities; X5 = Sales / Total Assets;

Explanation: The Z-Score is a ratio which measures the overall health of a business. In some cases, it can be used as an early predictor of a business's probability of bankruptcy in the next year. How to interpret the Z-Score: a score of 2.90 or above implies a low risk of bankruptcy; a score between 1.23 and 2.90 is an average risk; a score of 1.23 or lower signals a high risk of bankruptcy.

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.).