Report prepared for: Sample Extreme Client

Industry: 333516 - Rolling Mill Machinery and Equipment Manufacturing
Revenue: $1M - $10M
Periods: 12 months against the same 12 months from the previous year

LIQUIDITY	★☆☆☆☆	**BORROWING**	★☆☆☆☆
PROFITS & PROFIT MARGIN	★★★★★	**ASSETS**	★★★★★
SALES	★☆☆☆☆	**EMPLOYEES**	★★★★★

LIQUIDITY ★☆☆☆☆

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

Operating Cash Flow Results
It is favorable that the company is generating positive operating profits and positive cash flow from operations for the period. Additional cash flow may be needed to boost the overall liquidity position of the company over time (this will be discussed in more detail below). It is also good to see that cash flow and profits are of the same quality, as these two key metrics should line-up in terms of strength and direction over time.

General Liquidity Conditions
Despite **lower sales**, the company has increased profits quite a lot this period, which is positive. The problem is that it looks like few of the extra profits were retained in the company. In fact, the company's liquidity position has slipped from last period by 28.28%. This is an issue right now because the overall liquidity position is fairly weak.

"Fairly weak" means that there is only a "fair" amount of cash and other highly liquid assets relative to what is owed to short-term creditors. Ordinarily, this might not be a problem. However, here it is troublesome because the company only has a small investment in its other current assets that can support the company if cash gets very low for some reason. Essentially, it can be said that the company's cash and near-cash accounts are in decent condition, but **the overall liquidity position is quite weak**. Note in the graph area of the report that the company's quick ratio is average and the company's current ratio is poor.

The firm's goal is to continue driving in more profits **and** to find some ways to retain some of the extra profits in the business. If this is not done, the company may find it difficult to "liquidate" bills as they come due.

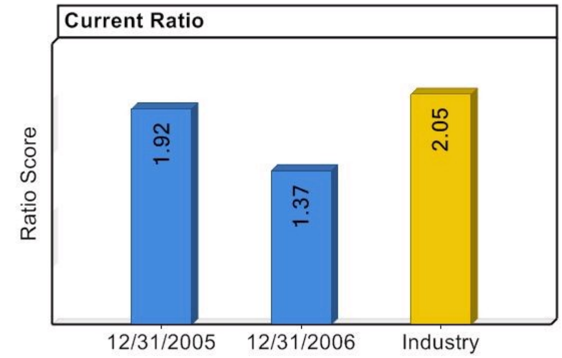
While the company's overall liquidity health is relatively soft, it is also important to note specific items that could be problematic. For example, the company's inventory days ratio is high, which generally could indicate some difficulty in converting inventory into sales. Otherwise, both accounts receivable and accounts payable days are in line with industry standards, which are general measures of how quickly the company is collecting receivables and paying bills/payables.

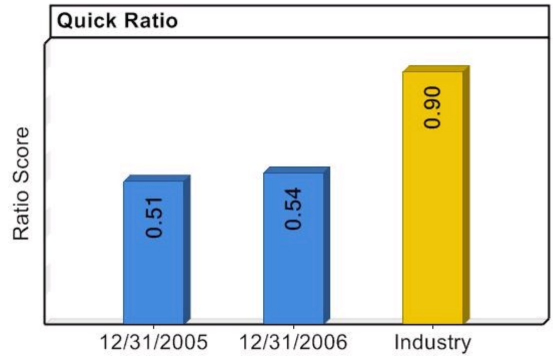
In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

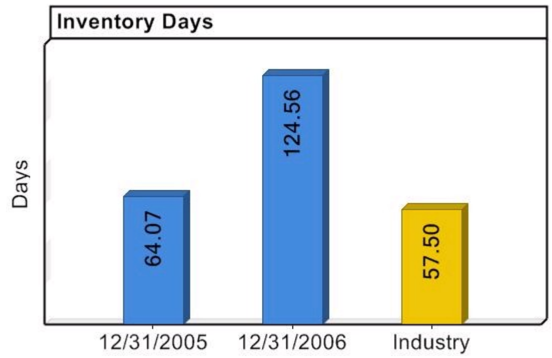
- Keep an accurate payables schedule on a weekly basis. This can help to track what payments need to made each week to avoid late charges and double billings, both of which will reduce cash.
- Sell any unnecessary/unproductive equipment or supplies the business may have to increase cash. These are items that are not contributing sufficiently to the generation of income and cash flow.
- Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. Make sure giving credit will increase revenues/income and be cost effective. Also, if beneficial, provide discounts to customers who pay early.
- Monitor accounts receivable on a weekly basis, and charge interest on invoices that are past due.

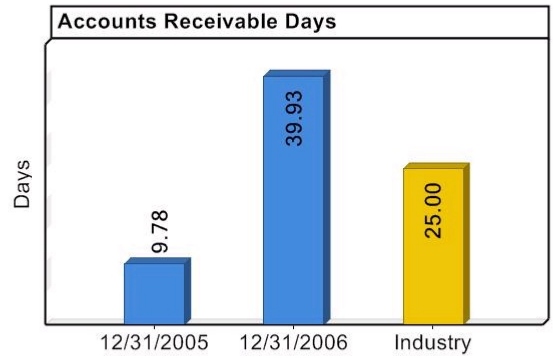
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking

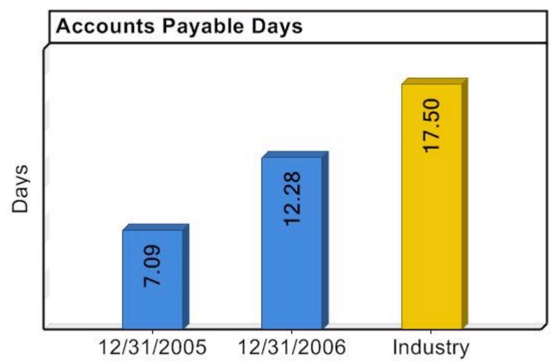
at a snapshot in time. Review this section, but do not overly rely on it.











PROFITS & PROFIT MARGIN

Are profitability trends favorable in the company?

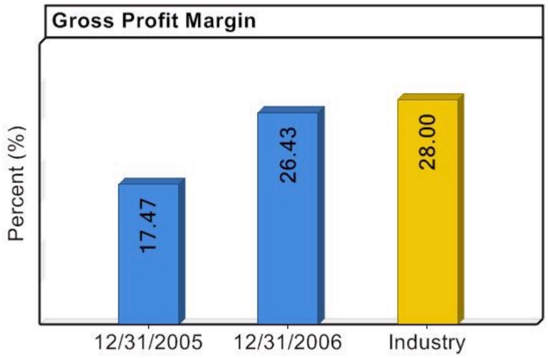
It is positive that this company has been able to improve its net profitability, even though it saw decreased sales this period. Net profits and net profit margins have increased from last period; the company has earned more cents of net profit per sales dollar and more total net profit dollars -- a very good combination. The company seems to be managing its sales revenue better, which is important considering that sales dropped. More importantly, the net profit margin is generally strong. This specifically means that net profitability is excellent as compared to other similar companies. From the graphs, it is clear that the company's net profits are good in absolute financial terms, and also strong compared to the earnings of the competition.

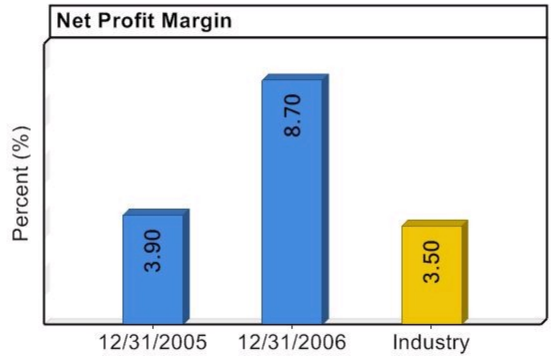
The company also performed well in the gross profit area. Gross profits increased because the gross profit margin increased quite significantly. It appears that the company may have found a way to cut the costs of sales (direct costs) significantly as a percentage of sales. The cost of sales is now fewer pennies per sales dollar than it was last period. From a more practical view, even though sales fell, gross profits rose because of savings in direct costs.

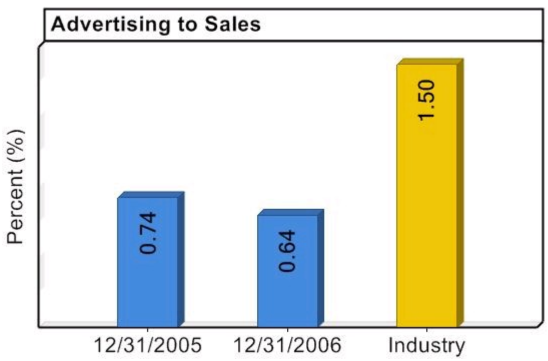
It is rare when gross margin performance and net profitability performance both improve as sales decrease. It might be interesting to assess whether the company can continue to improve profitability through decreased revenue performance over the long run -- it could be that the company's optimal profitability range is at lower sales levels, although this is rare for most companies.

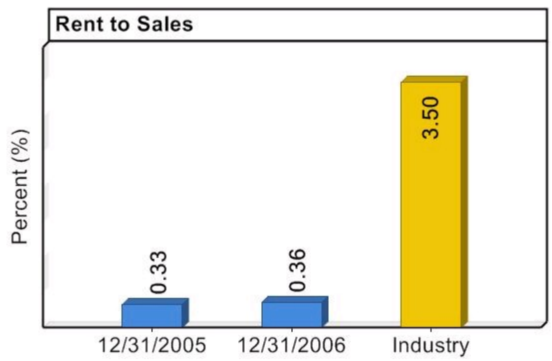
Good profit managers make continuous and small adjustments to improve their businesses. Managers might possibly consider the following to improve profits over time:

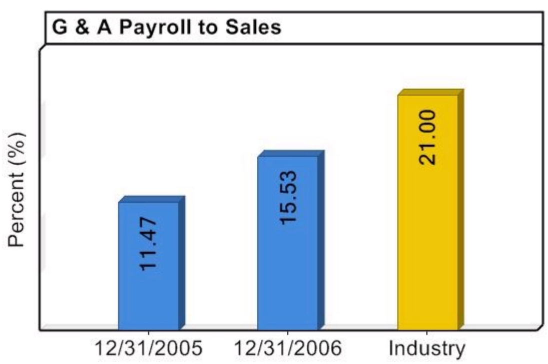
- Read up on the latest government regulations and safety issues. Being familiar with these regulations and having these publications on hand can help establish the business as a quality provider.
- Find wasy to reduce waste from manufacturing processes. Track waste carefully, and develop incentives which will encourage employees to find creative solutions.
- 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.
- 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.











SALES

Are sales growing and satisfactory?

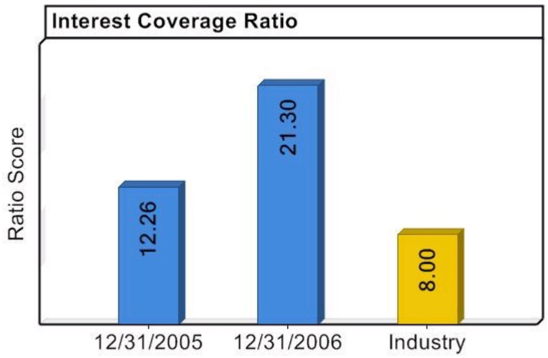
The company's sales have fallen this period, while fixed assets remained relatively stable. This dynamic could negatively affect net profitability if sales continue to fall in the future. Typically, companies want to see revenue increasing over time; this is true because the cost of business continually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

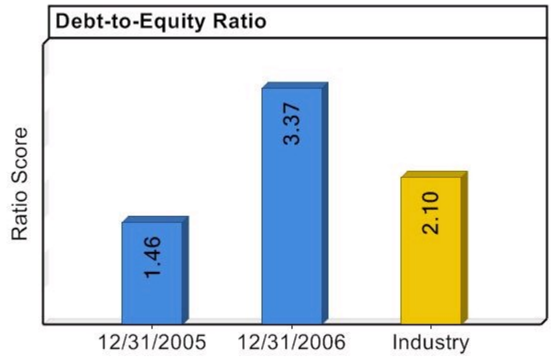
BORROWING

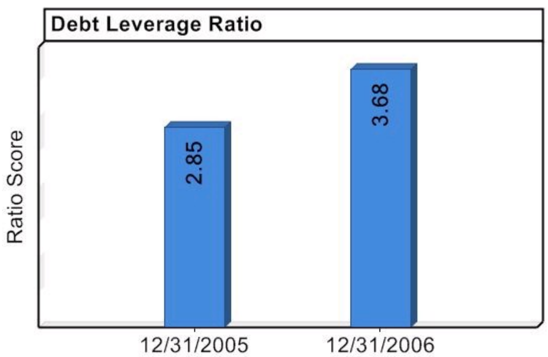
Is the company borrowing profitably?

Even though net profitability has improved considerably from last period as already discussed, there is a slight concern with the results in this area: total debt has grown significantly faster than profitability. This could be a troubling trend if it continues. The long term goal is not only to keep improving profitability, but also to make sure that improvements in profitability outstrip growth in debt over the long run. Otherwise, over time the company could end up with too much debt for its profitability level.

Although the company’s trend of debt and profitability does not seem positive, it should be noted that the company has derived enough earnings (before interest and non-cash expenses) to meet interest expenses. Also, this has been accomplished while maintaining a large amount of debt relative to total equity. Often, companies that are highly leveraged with a relatively unfavorable trend of debt and profitability would also have poor coverage ratios. Therefore, in this specific case, we would need to balance these considerations against the company's overall score.





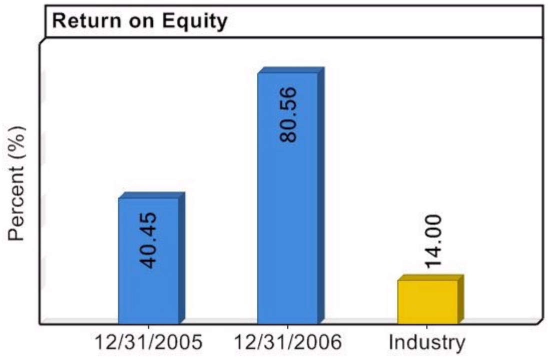


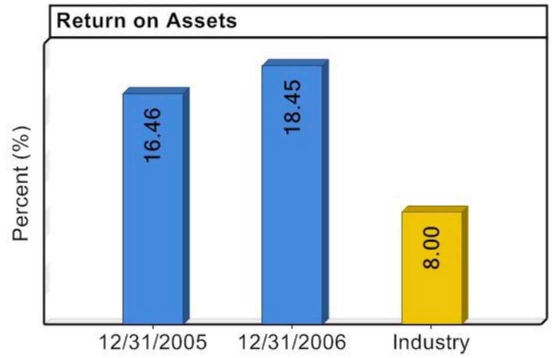
ASSETS

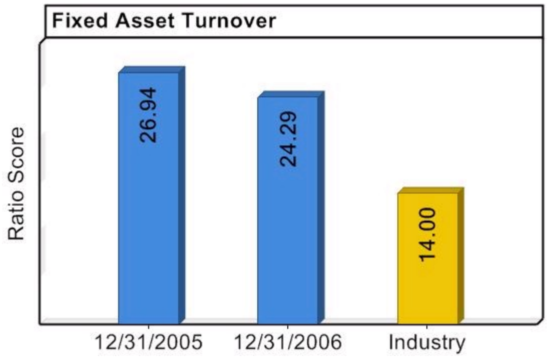
Is the company using gross fixed assets effectively?

The company did very well with its fixed assets: approximately the same level of assets were used to considerably improve net profitability by 100.93%. This means that more resources such as assets were not required to leverage profitability, at least during this period. Generally, the company should be pleased to improve profitability on about the same level of assets. Typically, for a given level of profitability, good companies should try to keep both expenses and assets as low as possible. This is because lower asset levels improve the return on assets, which increases the company's ability to borrow profitably.

It is also positive to see above average returns on assets and equity, since these metrics are of critical importance to external and internal investors. The fixed asset ratio of the company is high as well, which means that the company is driving an adequate amount of revenue through each dollar invested in fixed assets.





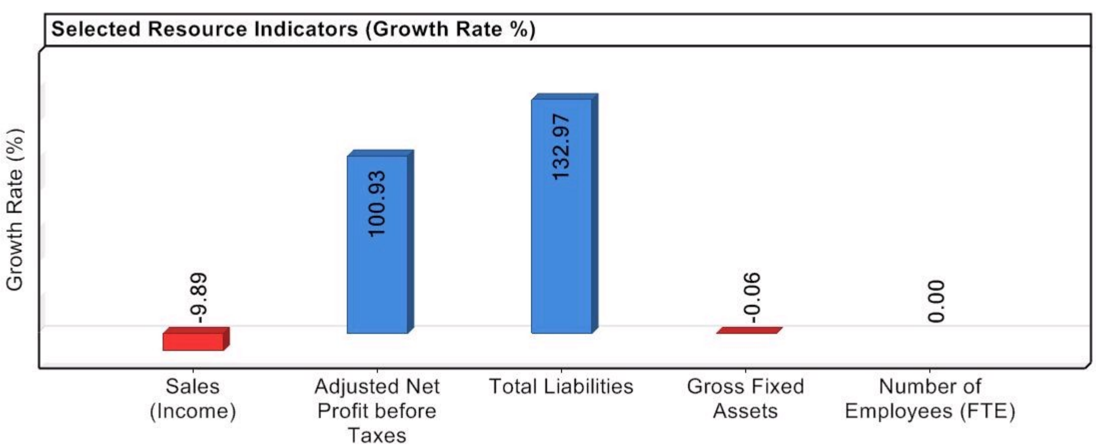


EMPLOYEES

Is the company hiring effectively?

This company has done strong work with respect to its employees. Net profitability has improved significantly, and the company has done this with relatively the same employee and asset bases. Essentially, this means that the company's resources are being managed more effectively. It also means that the key to success (at least in the short run) may be "off the books" -- that profitability may be driven by factors other than assets or employees. Both the company's assets and employee base stayed relatively flat -- the company did not require much more of either to improve net profitability. To put it simply, the company is now driving more profitability through its existing resources, which is excellent.

Managers should think about how net profitability improved without increasing assets or employees. This may be the way the company will want to expand in the short run because it will generally **not** involve the larger expenses incurred when hiring employees or purchasing fixed assets.



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

	12/31/2005	12/31/2006
Income Statement Data		
Sales (Income)	$4,582,476	$4,129,097
Cost of Sales (COGS)	$3,781,974	$3,037,893
Gross Profit	$800,502	$1,091,204
Gross Profit Margin	17.47%	26.43%
G & A Payroll Expense	$525,439	$641,194
Rent	$15,000	$15,000
Advertising	$34,056	$26,480
Depreciation	$28,886	$29,980
Interest Expense	$18,440	$19,159
Net Profit before Taxes	$178,684	$359,031
Adjusted Net Profit before Taxes	$178,684	$359,031
Net Profit Margin	3.90%	8.70%
EBITDA	$226,010	$408,170
Net Income	$178,684	$359,031
Balance Sheet Data		
Cash (Bank Funds)	$120,862	$250,362
Accounts Receivable	$122,773	$451,665
Inventory	$663,850	$1,036,692
Total Current Assets	$915,603	$1,775,963
Gross Fixed Assets	$170,118	$170,023
Total Assets	$1,085,721	$1,945,985
Accounts Payable	$73,423	$102,229
Total Current Liabilities	$477,797	$1,292,175
Total Liabilities	$643,998	$1,500,331
Total Equity	$441,723	$445,654
Number of Employees (FTE)	20.0	20.0

COMMON SIZE STATEMENTS

	12/31/2005	12/31/2006	Industry (59)
Income Statement Data			
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	83%	74%	74%
Gross Profit	17%	26%	26%
G & A Payroll Expense	11%	16%	15%
Rent	0%	0%	1%
Advertising	1%	1%	1%
Depreciation	1%	1%	1%
Interest Expense	0%	0%	0%
Net Profit before Taxes	4%	9%	6%
Adjusted Net Profit before Taxes	4%	9%	6%
EBITDA	5%	10%	7%
Net Income	4%	9%	6%
Balance Sheet Data			
Cash (Bank Funds)	11%	13%	14%
Accounts Receivable	11%	23%	16%
Inventory	61%	53%	50%
Total Current Assets	84%	91%	88%
Gross Fixed Assets	16%	9%	18%
Total Assets	100%	100%	100%
Accounts Payable	7%	5%	7%
Total Current Liabilities	44%	66%	53%
Total Liabilities	59%	77%	68%
Total Equity	41%	23%	32%

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio	1.37	1.50 to 2.60	-8.67%

= Total Current Assets / Total Current Liabilities

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	0.54	0.50 to 1.30	0.00%

= (Cash + Accounts Receivable) / Total Current Liabilities

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.

Inventory Days	124.56 Days	40.00 to 75.00 Days	-66.08%

= (Inventory / COGS) * 365

Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.

Accounts Receivable Days	39.93 Days	10.00 to 40.00 Days	0.00%

= (Accounts Receivable / Sales) * 365

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	12.28 Days	5.00 to 30.00 Days	0.00%

= (Accounts Payable / COGS) * 365

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	26.43%	20.00% to 36.00%	0.00%

= Gross Profit / Sales

Explanation: This number indicates the percentage of sales revenue that is 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	8.70%	1.00% to 6.00%	+45.00%

= Adjusted Net Profit before Taxes / Sales

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.

Advertising to Sales	0.64%	0.50% to 2.50%	0.00%

= Advertising / Sales

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

Rent to Sales	0.36%	1.50% to 5.50%	+76.00%

= Rent / Sales

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

G & A Payroll to Sales	15.53%	15.00% to 27.00%	0.00%

= G & A Payroll Expense / Sales

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

Interest Coverage Ratio	21.30	4.00 to 12.00	+77.50%

= EBITDA / Interest Expense

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	3.37	1.20 to 3.00	-12.33%

= Total Liabilities / Total Equity

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	3.68	N/A	N/A

= Total Liabilities / EBITDA

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

Return on Equity	80.56%	8.00% to 20.00%	+302.80%

= Net Income / Total Equity

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	18.45%	6.00% to 10.00%	+84.50%

= Net Income / Total Assets

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	24.29	8.00 to 20.00	+21.45%

= Sales / Gross Fixed Assets

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 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.).