# The Story Behind the Numbers

Dr. Sally Sample
Chiropractic for Life

**For the period ending 12/31/2007**

**Provided By**


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**Report prepared for:** Dr. Sally Sample
**Industry:** 62131 - Offices of Chiropractors
**Revenue:** Less than $1M
**Periods:** 12 months against the same 12 months from the previous year


| | |
|---|---|
| 89 out of 100 | **LIQUIDITY** |
| 83 out of 100 | **PROFITS & PROFIT MARGIN** |
| 78 out of 100 | **SALES** |
| 37 out of 100 | **BORROWING** |
| 47 out of 100 | **ASSETS** |
| 85 out of 100 | **EMPLOYEES** |

## LIQUIDITY — 89 OUT OF 100

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

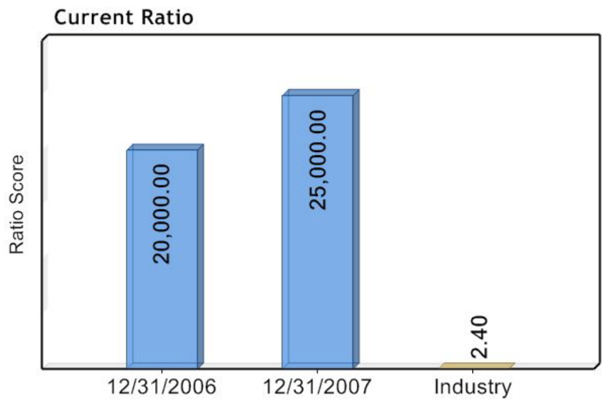
**Operating Cash Flow Results**
Conditions in this area are quite strong. The company is generating strong, positive cash flow from operations. This is especially good since overall liquidity conditions are also quite strong (which will be discussed below). Ultimately, cash flow drives long-run liquidity for almost any company. Plus, it is good to see a strong relationship between cash flow and profits, as this typically demonstrates effective management of both the Balance Sheet and Income Statement, at least with regard to cash.

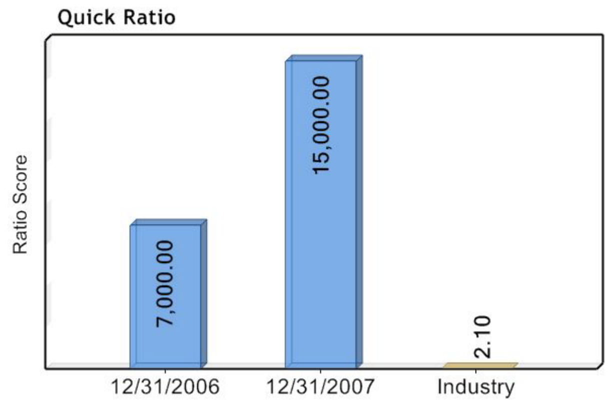
**General Liquidity Conditions**
In this case, the company pulled off a noteworthy result. **The firm's overall liquidity position is quite strong**. Furthermore, both net profitability and liquidity increased at the same time, as we will discuss in the next area of the report. Essentially, the company has improved both short-term Balance Sheet and Income Statement performance, which is often not easy to achieve.

The firm's ability to do this is a positive find because it **might** indicate that the company can grow and keep overall liquidity strong -- two positives that don't always go hand-in-hand. Notice that profits grew, too. The management "report card" is good when sales, net profits and liquidity move higher concurrently. For example, notice in the graph area of the report that both the company's current and quick ratios are quite good. This implies that the composition and scope of the firm's liquidity are sound at this specific time.

**Tips For Improvement**
Here are some ideas/actions that managers might consider in managing liquidity:

- Monitor accounts receivable on a weekly basis, and charge interest on invoices that are past due.
- Watch the payment terms of credit cards, if they are accepted by the business. For example, some credit cards have payment terms of ten days as opposed to the one day terms of others. Longer terms prevent the business from collecting actual payments until much later.
- 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.




## PROFITS & PROFIT MARGIN — 83 OUT OF 100

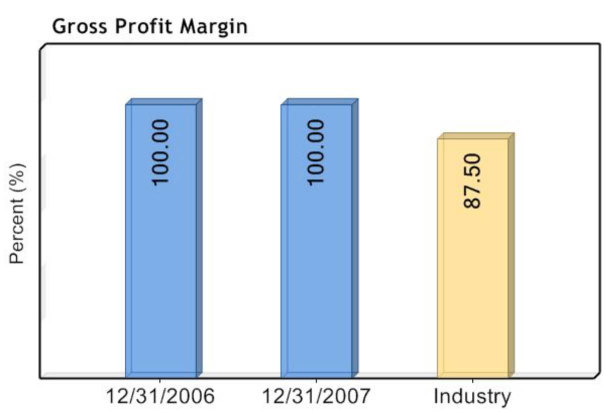
**Are profitability trends favorable in the company?**

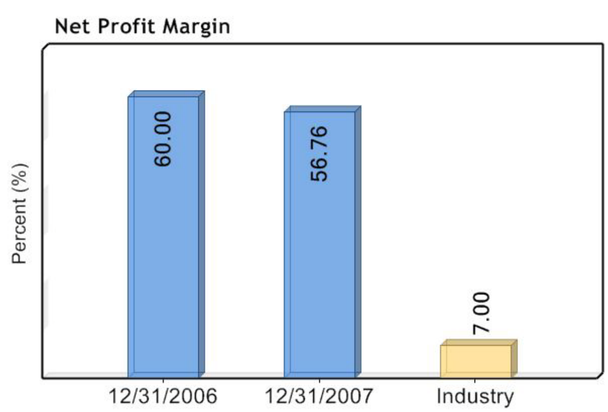
The company was able to increase its sales and its net profits in dollars this period, while maintaining the strength in its net profit margin from the previous period. These are positive results. The company's net margin is strong both overall and relative to the net margins that are being earned by other firms in the industry, which is highlighted in the graph area of the report. Keep in mind that the net profit margin measures the percentage of profit that the company earns from each dollar it gains in sales. No other Income Statement ratio is as important to a company's health as the net profit margin.

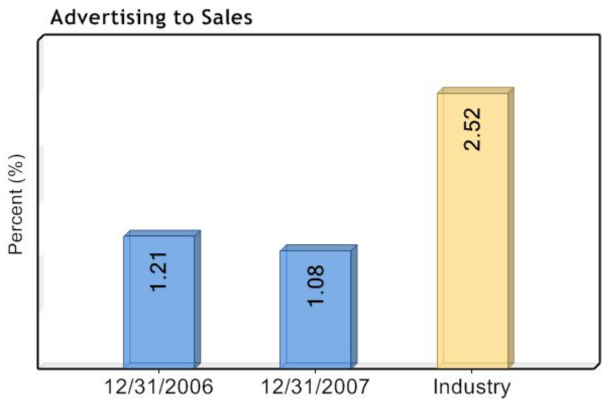
The company has also been able to increase net profits (in dollars) by 6.06% this period. It is generally pleasing to see a company generate more net profits as it increases sales. This suggests that the company is doing a good job of controlling its costs and is maintaining its efficiency as it grows and increases sales.

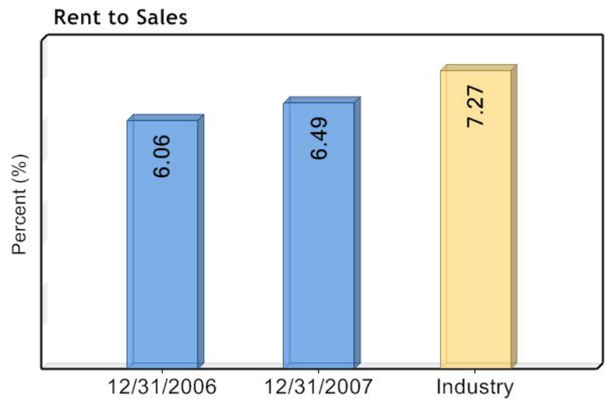
**Tips For Improvement**
The following ideas to improve profitability might be useful and can be thought-through by managers:

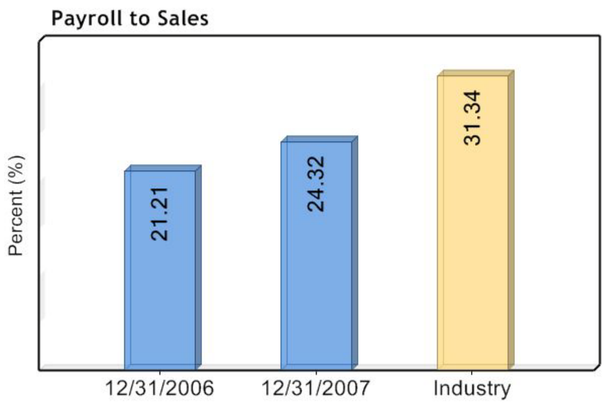
- Send reminders for upcoming appointments through mail, email or telephone calls. Patients often appreciate these reminders, especially when appointments were scheduled far in advance.
- Have an attractive web presence. List the services you provide, and consider allowing patients to make appointments online.
- Examine media sources (journals, etc.) for valuable information. Credible sources can often provide details on managing key elements (such as labor and materials/supplies) more effectively.
- Clearly define the mission of the business and make it visible to potential patients. This can be done through strategically placed advertisements and serves to let potential patients know what services they can expect from the business.






## SALES 78 OUT OF 100

**Are sales growing and satisfactory?**

Most managers are fairly aware of sales trends -- they generally know whether sales are increasing or decreasing at a given point in time. This company's sales are higher this period, which is clearly a good result. The company increased its fixed asset base this period as well. Managers may want to investigate whether this fixed asset purchase drove the sales increase, or if other factors were at work here.

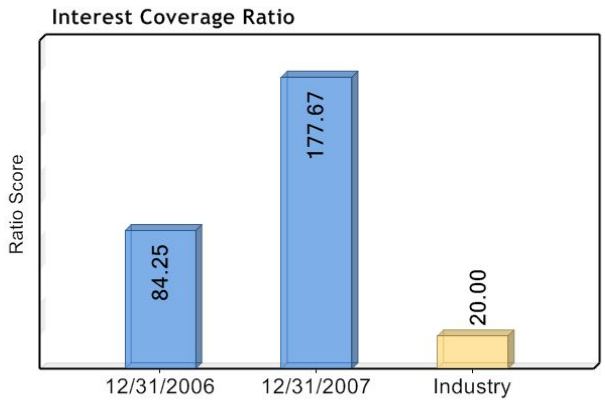
## BORROWING 37 OUT OF 100

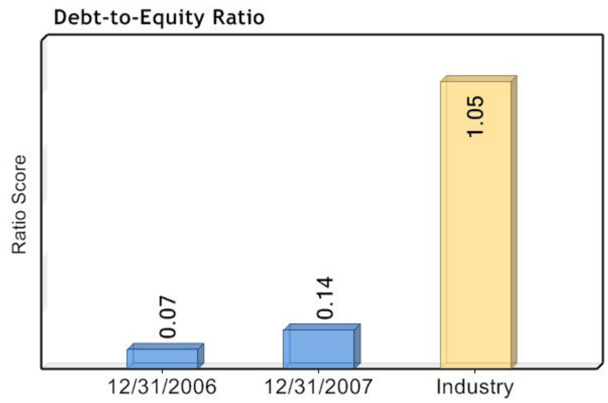
**Is the company borrowing profitably?**

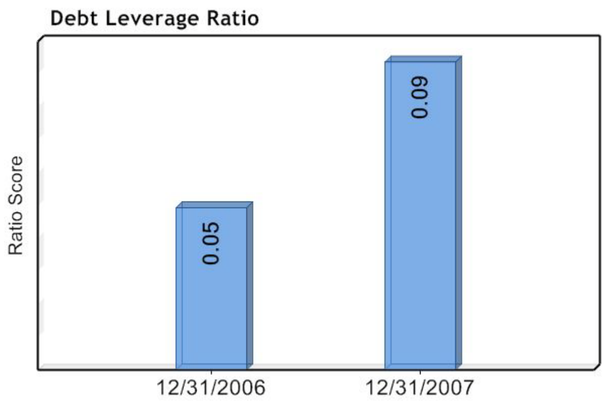
As discussed in the Profitability section, profitability has improved by 6.06% from last period. The issue is that although net profitability has improved, debt went up at a faster rate. For this area, this situation is rather undesirable because the long run goal is to lever profitability at a faster rate than the rate at which debt is added.

There are some conflicting analytical points here. For example, the company's trend in this area is poor. Yet, the firm seems to be generating ample cash flow from its operations to meet debt obligations. What conclusions can be reached? Perhaps the company is driving enough cash flow **relative** to cost of debt expenses because its debt load is relatively **low** (notice that the debt-to-equity of the company is low, even as compared to the competition). It is difficult to go far in the analysis here, so one might lean on the fact that the overall trend is not favorable.

On a general note, there are always other debt management issues that can be improved upon. One of these is to make sure the company is in compliance with its loan agreements --the "covenants" that indicate what types of financial benchmarks must be met. Another area is to do good income and cash forecasting which shows how profitability and cash will change with different levels of debt.



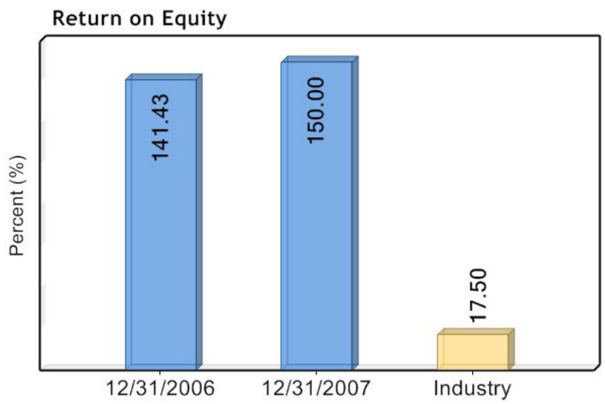



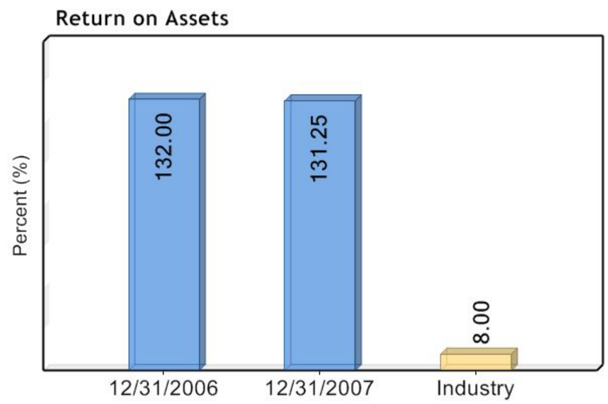

## ASSETS 47 OUT OF 100

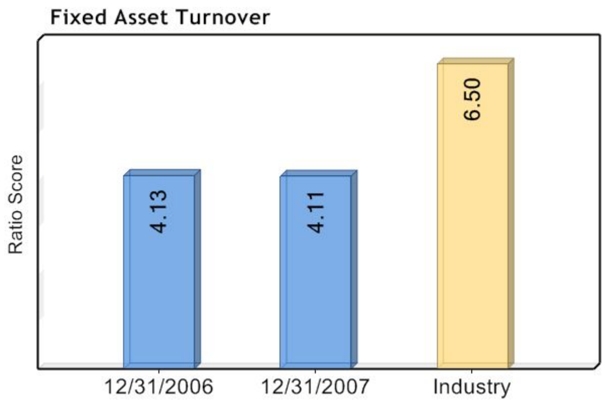
**Is the company using gross fixed assets effectively?**

Although it is positive to see profitability improve by 6.06%, the results here in terms of asset management are actually not as favorable. Fixed assets are a kind of bundled cost. Ideally, increases in assets should leverage larger improvements in profitability. However, in this case, profitability improved, but fixed assets rose at a faster rate. Unless this circumstance is due to the assets needing some time to achieve optimal performance, it could mean that the company needs to be more careful in making asset investment decisions.

It is also important to highlight critical components that are positive. For example, the company has generated above average returns on equity and assets. While it is true that the changing relationship between operating profits and assets will guide long-term returns, in this case, real economic returns in assets and equity are excellent, a fact that needs to be balanced against the overall unfavorable trend.



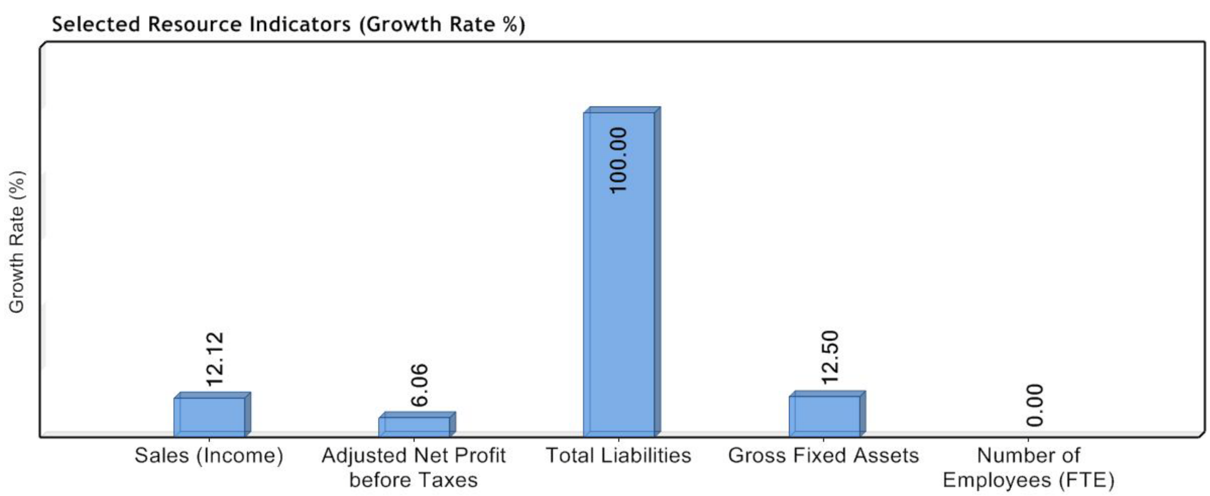



## EMPLOYEES — 85 OUT OF 100

**Is the company hiring effectively?**

This company has seen some excellent results with its employees. The results are positive because managers have improved the amount of net profitability that is flowing through about the same number of employees, a fact that improves the net profitability per employee statistic. This statistic is a key barometer of efficiency in this particular industry. If the company can keep improving net profitability without hiring additional people, there may not be a compelling reason to bring on more staff **at this time**. Of course, this analysis is based upon past data. Careful planning in the human resource area is always necessary. Specifically, good decisions in this area are based upon forward-looking data and solid projections.

"Can you name a more powerful resource than information? I cannot." -- John Jacob Astor




**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 | 12/31/2006 | 12/31/2007 |
|---|---|---|
| Sales (Income) | $165,000 | $185,000 |
| Cost of Sales (COGS) | $0 | $0 |
| Gross Profit | $165,000 | $185,000 |
| Gross Profit Margin | 100.00% | 100.00% |
| Payroll / Wages / Salary | $35,000 | $45,000 |
| Rent | $10,000 | $12,000 |
| Advertising | $2,000 | $2,000 |
| Depreciation and Amortization | $900 | $1,000 |
| Interest Expense | $1,200 | $600 |
| Net Profit before Taxes | $99,000 | $105,000 |
| Adjusted Net Profit before Taxes | $99,000 | $105,000 |
| Net Profit Margin | 60.00% | 56.76% |
| EBITDA | $101,100 | $106,600 |
| Net Income | $99,000 | $105,000 |

| Balance Sheet Data | | |
|---|---|---|
| Cash (Bank Funds) | $7,000 | $15,000 |
| Accounts Receivable | $0 | $0 |
| Inventory | $0 | $0 |
| Total Current Assets | $20,000 | $25,000 |
| Gross Fixed Assets | $40,000 | $45,000 |
| Total Assets | $75,000 | $80,000 |
| Accounts Payable | $0 | $0 |
| Total Current Liabilities | $0 | $0 |
| Total Liabilities | $5,000 | $10,000 |
| Total Equity | $70,000 | $70,000 |

| | | |
|---|---|---|
| Number of Employees (FTE) | 1.0 | 1.0 |

# COMMON SIZE STATEMENTS

| Income Statement Data | 12/31/2006 | 12/31/2007 | Industry (776) |
|---|---|---|---|
| Sales (Income) | 100% | 100% | 100% |
| Cost of Sales (COGS) | 0% | 0% | 6% |
| Gross Profit | 100% | 100% | 90% |
| Payroll / Wages / Salary | 21% | 24% | 20% |
| Rent | 6% | 6% | 5% |
| Advertising | 1% | 1% | 2% |
| Depreciation and Amortization | 1% | 1% | 3% |
| Interest Expense | 1% | 0% | 1% |
| Net Profit before Taxes | 60% | 57% | 18% |
| Adjusted Net Profit before Taxes | 60% | 57% | 21% |
| EBITDA | 61% | 58% | 22% |
| Net Income | 60% | 57% | 18% |

| Balance Sheet Data | | | |
|---|---|---|---|
| Cash (Bank Funds) | 9% | 19% | 26% |
| Accounts Receivable | 0% | 0% | 11% |
| Inventory | 0% | 0% | 1% |
| Total Current Assets | 27% | 31% | 46% |
| Gross Fixed Assets | 53% | 56% | 126% |
| Total Assets | 100% | 100% | 100% |
| Accounts Payable | 0% | 0% | 8% |
| Total Current Liabilities | 0% | 0% | 35% |
| Total Liabilities | 7% | 13% | 73% |
| Total Equity | 93% | 88% | 27% |

# INDUSTRY SCORECARD

| Financial Indicator | Current Period | Industry Range | Distance from Industry |
|---|---|---|---|
| **Current Ratio**<br>= Total Current Assets / Total Current Liabilities | 25,000.00 | 1.60 to 3.20 | +781,150.00% |

**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**<br>= (Cash + Accounts Receivable) / Total Current Liabilities | 15,000.00 | 1.20 to 3.00 | +499,900.00% |

**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.

| | | | |
|---|---|---|---|
| **Gross Profit Margin**<br>= Gross Profit / Sales | 100.00% | 80.00% to 95.00% | +5.26% |

**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 future sales. Higher is normally better (the company is more efficient).

| | | | |
|---|---|---|---|
| **Net Profit Margin**<br>= Adjusted Net Profit before Taxes / Sales | 56.76% | 2.00% to 12.00% | +373.00% |

**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.

| | | | |
|---|---|---|---|
| **Advertising to Sales**<br>= Advertising / Sales | 1.08% | 0.98% to 4.06% | 0.00% |

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

| | | | |
|---|---|---|---|
| **Rent to Sales**<br>= Rent / Sales | 6.49% | 5.08% to 9.46% | 0.00% |

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

| | | | |
|---|---|---|---|
| **Payroll to Sales**<br>= Payroll Expense / Sales | 24.32% | 23.79% to 38.89% | 0.00% |

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

| | | | |
|---|---|---|---|
| **Interest Coverage Ratio**<br>= EBITDA / Interest Expense | 177.67 | 10.00 to 30.00 | +492.23% |

**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**<br>= Total Liabilities / Total Equity | 0.14 | 0.70 to 1.40 | +80.00% |

**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**<br>= Total Liabilities / EBITDA | 0.09 | N/A | N/A |

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

| | | | |
|---|---|---|---|
| **Return on Equity**<br>= Net Income / Total Equity | 150.00% | 10.00% to 25.00% | +500.00% |

**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**<br>= Net Income / Total Assets | 131.25% | 6.00% to 10.00% | +1,212.50% |

**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**<br>= Sales / Gross Fixed Assets | 4.11 | 3.00 to 10.00 | 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 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.).