Performance Review

For the period ended 12/31/2006

Provided By

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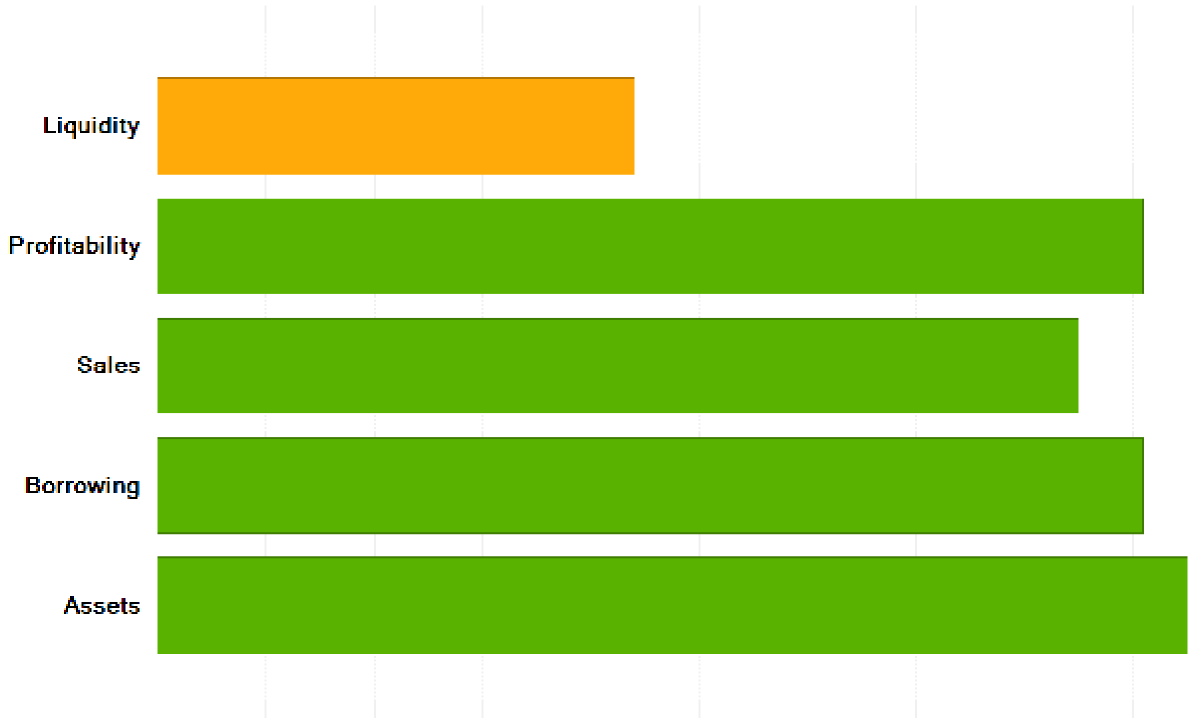
Financial Score

ABC Company Narrative Report

Industry: 236220 - Commercial and Institutional Building Construction
Revenue: $1M - $10M
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.

Perhaps the nice increase in sales and profits helped the company improve its liquidity position from last period. Specifically, there are now more cash and other highly liquid assets as compared to what is owed to short-term creditors. Still, the firm's liquidity position seems a little soft. Generally, this means that there are not enough cash assets on hand to pay bills readily. Although the models used here are not predictive, the liquidity position is even weak relative to other similar companies.

Interestingly, the total current asset base is not poor. The precise weakness is in the cash and near-cash accounts. Ultimately, these are the accounts that should be built over time, since resources are drawn from here to pay bills. In summary, the company may seek to build its total current asset base AND its cash assets in order to improve its liquidity position.

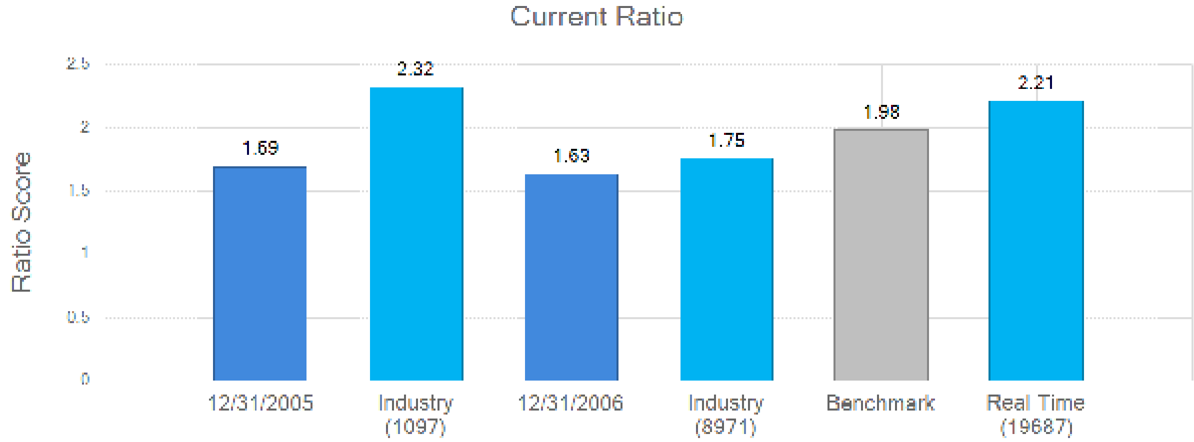
Tips For Improvement

Here are some ideas/actions that managers might consider in managing liquidity:

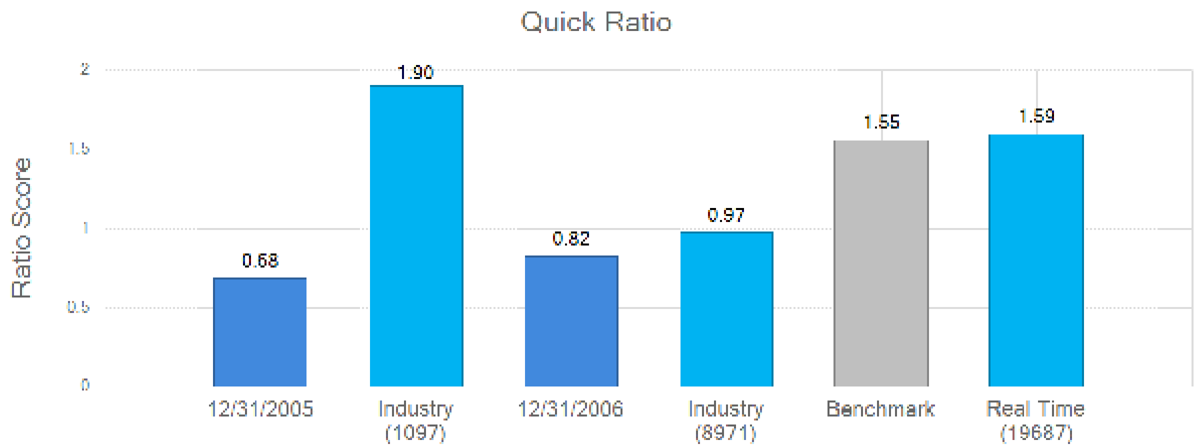
- Watch for contracts that have a retention factor that could delay funds for a lengthy period of time. Delaying payment to vendors, when agreed upon, could help off-set

the cash restraint.
- Set longer terms for Accounts Payable when possible and allowable by the vendor. For example, increase a 30 day payment window to 60 days.
- Keep an accurate payables schedule on a week by week basis to help the business avoid any late charges or double billings.
- Rent rather than buy resources where appropriate. In the long term, this can help achieve an acceptable level of Balance Sheet obligations relative to liquid assets.

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.

Profits & Profit Margin

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

The company is performing quite well -- better than most companies in the industry. In fact, the company has received the highest score possible in this area. First, net profitability is strong. This means that the company is earning better net profits than most of its competitors, as determined by the industry and sales range that the company operates in.

It also means that net profits have increased substantially from last period. If the company can continue to generate better net profits over time, it will improve performance in all other areas of the report as well. Net profit margins are also high, which indicates general profit health.

Second, the important margins have improved from last period. Both gross margins and net margins have improved from last period, which is excellent. This means that managers are managing direct costs (cost of sales) and indirect costs (general and administrative costs) very effectively. Trends are very important in this area.

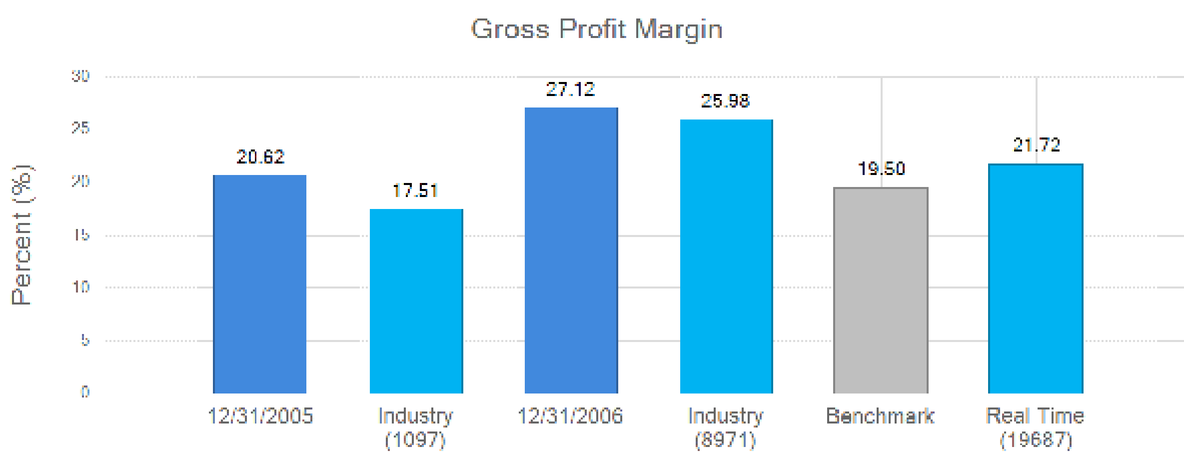
Third, it is good to increase sales this much and control expenses this well concurrently. This indicates that the company is managing its growth well. It may also mean that managers should think of how to lever higher profits in the future. The time to grow the business is when profitability and liquidity are strong.

Can management establish expense accounts that are dedicated to growing the company? When companies are earning strong positive profits, managers can sometimes establish expense categories that are devoted to growing sales and/or long-term earnings. This has the dual effect of lowering present tax burdens (these growth expenses will lower earnings) and driving long-term profits. For example, many times these "growth accounts" are marketing expenses, which will grow sales and profits.

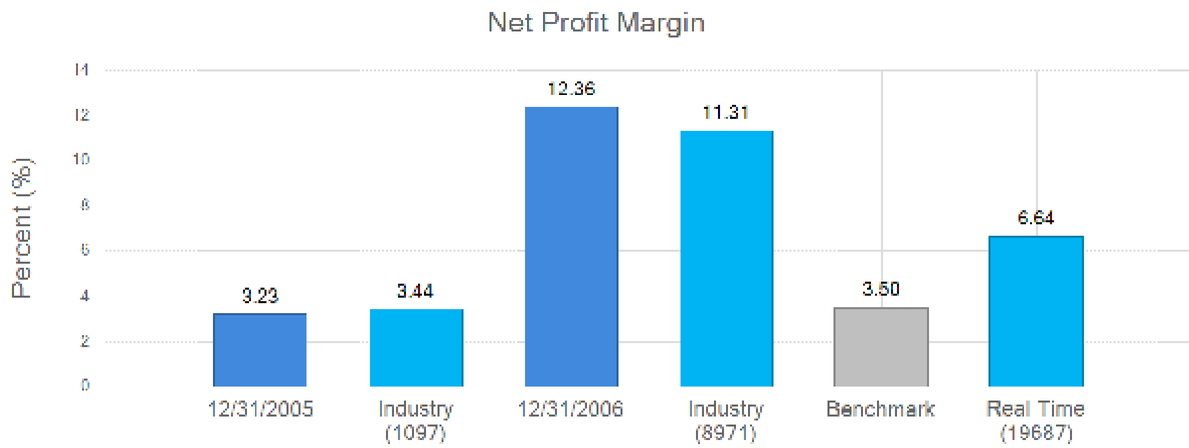
Tips For Improvement

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

- Invest in software, such as on-site logistics solutions, to help the business better manage labor and material costs.
- Become an expert in certain specialty arenas of building construction, such as schools or churches. This can create a competitive advantage for the business and be a means to attract these types of customers in the future.
- Monitor the amount of money that is being used for activities unrelated to the business.
- Monitor the costs going into all office supplies. With more important costs being monitored closely, many businesses forget to look at this smaller cost, and often allow it to be higher than necessary.



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).

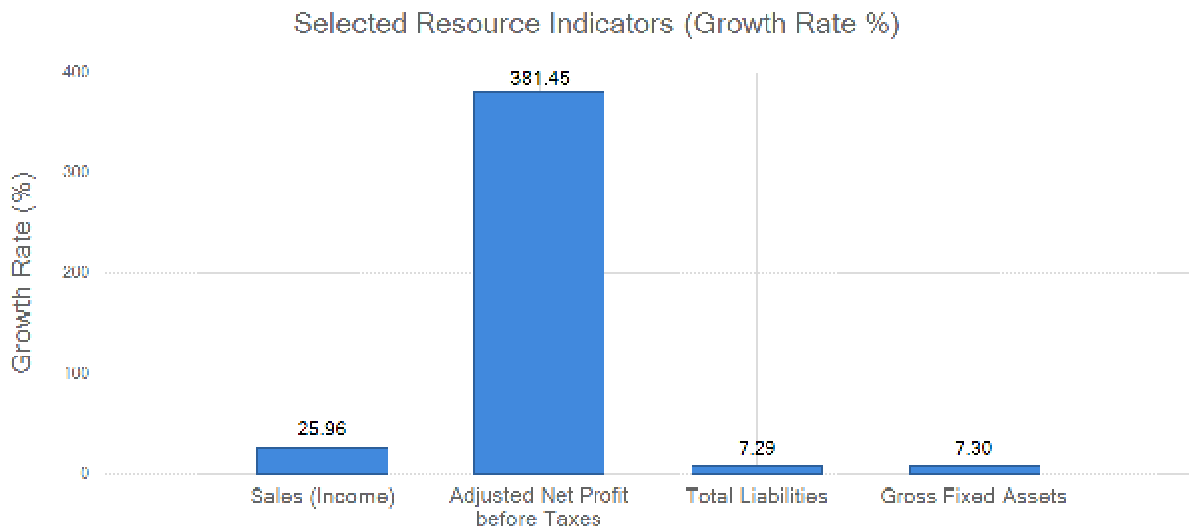


This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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

Sales

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

Results are excellent here -- sales have risen significantly from last period. Sales are even growing at a faster rate than the sales of many competitors. This dynamic should help improve profitability over time if other parts of the Income Statement are being managed well. The organization has also added some fixed assets, but sales have increased at a faster rate than the rate at which the asset base has increased -- another key trend. Again, this is a positive result. It means that assets are generating more sales than they were last period. Still, as discussed in the last section, the overall focus should remain on profitability, not sales. In short, this section is generally less important than the Liquidity or Profitability sections.



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 company performed very well with respect to debt use. Borrowing increased and net profitability improved at an even faster rate. This is a favorable result, and should provide improved returns for owners if the trend continues over time. Finally, not only did profitability in dollars improve from last period, but the net profit margin also improved -- an unusual and important combination when adding debt.

When a company receives a good score in this area, it is still quite important to evaluate real returns. For example, the trend here is good but managers will still want to determine the rates of return on assets and borrowed money. This report only indicates trends, not acceptable rates of return on borrowed funds.

It could be helpful to carefully analyze the following question: Did the increase in debt directly help improve profitability? The improved profitability could have been caused by other factors unrelated to debt. The answer to this question could point the direction for optimal debt decisions in the future.

Assets

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

The company has performed very well here. Profitability improved faster than the increasing of assets. It is a good situation whenever the company can use a resource (assets) to leverage profitability. An even better factor is the improvement in net profit margins. This means that the increase in assets has not negatively impacted the company's efficiency, at least at this point. If a small increase in assets yields improved profitability, the company may be open to more purchases if those purchases could be put to good use. However, it is important to ensure that profitability and cash flow look strong for at least the next twelve months before buying anything.

Raw Data

Income Statement Data	12/31/2005	12/31/2006
Sales (Income)	$825,690	$1,040,000
Cost of Sales (COGS)	$655,400	$758,000
Gross Profit	$170,290	$282,000
Gross Profit Margin	20.62%	27.12%
Net Profit Before Taxes	$26,690	$128,500
Adjusted Owner's Compensation	$0	$0
Adjusted Net Profit before Taxes	$26,690	$128,500
Net Profit Margin	3.23%	12.36%
Balance Sheet Data	**12/31/2005**	**12/31/2006**
Cash (Bank Funds)	$29,000	$45,000
Accounts Receivable	$11,000	$22,140
Total Current Assets	$99,000	$134,280
Gross Fixed Assets	$399,800	$429,000
Total Assets	$400,300	$458,780
Total Current Liabilities	$58,750	$82,250
Total Liabilities	$190,649	$204,550

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.).