Financial Health Screening Comparison to Industry NAICS 12345

ADVANCE IOWA
UNIVERSITY OF NORTHERN IOWA

Company Name: ABC Company									
	Like Biz	Industry	Value	Category	Current Results	2014	2013	2012	2011
Profit & Loss									
Sales Growth%	0.1%	3.5%	>10%	Optimal	**Optimal**	✓ 22%	✗ -14%	✓ 97%	✓ 7%
			0-10%	Average					
			<0%	At Risk					
Cost of Goods %	63%	72%	<60% of sales	Optimal	**At Risk**	✗ 83%	✗ 77%	✗ 84%	✓ 74%
			60-75% of sales	Average					
			>75% of sales	At Risk					
Sales Break-Even Point	$8,970,000	$2,613,000	$	Optimal	**At Risk**	$6,426,000	$5,810,000	$8,086,000	$3,248,000
			$$	Average					
			$$$	At Risk					
Operating Margin % before Officer's Comp.	9.6%	9.5%	>10%	Optimal	**At Risk**	! 4.5%	! 4.1%	✗ -0.6%	✓ 6.9%
			5-10%	Average					
			<5%	At Risk					
Balance Sheet									
Quick Ratio	1.0	1.5	> 1.5	Optimal	Average	✓ 1.3	✗ 0.8	✓ 1.1	✓ 1.8
			1.0 to 1.5	Average					
			< 1.0	At Risk					
Net Cash Cycle in Days	8.6	12.4	< 5 Days	Optimal	Average	✓ 14.6	✗ 31.3	✗ 37.3	✗ 22.5
			5 -15 Days	Average					
			> 15 Days	At Risk					
Debt Ratio	52%	52%	< 50 %	Optimal	Average	✓ 69%	✗ 71%	✓ 37%	✓ 20%
			50-70%	Average					
			> 70%	At Risk					
Total Asset Turnover	3.6	3.2	>4.0	Optimal	**At Risk**	✗ 2.6	✗ 2.1	✗ 2.8	✗ 2.0
			3.0 to 4.0	Average					
			<3.0	At Risk					
Cash Flow									
Interest Expense Coverage Ratio	5.2	5.0	> 10.0	Optimal	**Optimal**	✓ 10.6	✓ 5.6	✗ -8.6	✓ 20.1
			5.0 to 10.0	Average					
			< 5.0	At Risk					
Cash Flow Return on Investment	24%	20%	> 25%	Optimal	Average	✓ 25%	✓ 17%	✗ -2%	✓ 43%
			15-25%	Average					
			< 15%	At Risk					
Return on Equity	30%	26%	> 35%	Optimal	Average	✓ 30%	✓ 17%	✗ -33%	✓ 29%
			20-35%	Average					
			< 20%	At Risk					
Valuation									
Estimate based on (5) valuation techniques, including Multiple of EBITDA		$ 638,000	> 6.0	Optimal	Average	$ 732,000	$ 384,000		
			3.0 to 6.0	Average					
			< 3.0	At Risk					
Discounted Future Cash Flow			$$$	Optimal					
			$$	Average					
			$	At Risk					

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Glossary of Terms

Profit & Loss is the most often used financial statement by businesses. When compared with prior periods and/or against a budget, this statement is used to analyze trends in top line (sales) and bottom line (profit) growth. **Costs of Goods** are usually tracked separately from Operating Expenses (which are the Marketing/Advertising/Selling, General & Administrative costs). **Sales Break-Even Point** is that volume level which generates enough Gross Profit (Sales - Cost of Goods Sold) to cover all of your Operating Expenses. **Operating Margin % before Officer's Compensation** is your bottom line profit before paying yourself as the owner of the business and before paying the bank any interest on loans outstanding. This Operating Margin is then divided by Sales to get a % of Sales.

Balance Sheets are the second most common financial statement which business owners use. This report is a snap shot of what you own and what you owe at a particular point in time (usually the end of a month). It is summarized by short-term vs. long-term values. Two measures of your company's short-term value are the **Quick Ratio** (= cash + short-term investments + receivables / current liabilities) and **Working Capital in Days**. Working Capital is basically the money you have tied up in the product or service order cycle for customers, less the money you owe others for the same purpose. For example, you may have 30 days (in sales dollars) of receivable + 30 days of inventory - 30 days of payables - 15 days of customer deposits and other accrued expenses (such as payroll). This nets out to 15 days of working capital in the order cycle. The rest of the balance sheet lists book value of long-term assets, liabilities and equity. Two measures of the long-term value of your company include the **Debt Ratio** (= debt / total assets), which reveals what portion of your assets you have financed through borrowing, and **Total Asset Turnover** (= sales / total assets) which shows how productively you leverage your assets.

Cash Flow from operations is sometimes measured by EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). Investors, whether your banker or your equity partners, want to know the relationship between your company cash flow and their investment. The **Coverage Ratio** (= EBIT / interest expense), also known as "times interest earned ratio", indicates your company's ability to service its debts. **Cash Flow Return on Investment** (= Cash Flow / debt + equity) indicates the % growth in cash value which these investments are generating. **Return on Equity** (= annual return / equity investment only) measures the shareholder return on their own investment (including initial paid-in capital and accumulated earnings over the years, less any distributions they have taken).

Valuation of your business is its worth if you were to sell it. Although there are multiple ways to value a business, two common methods are as a **Multiple of EBITDA** and **Discounted Future Cash Flow** (DCF). The first method uses historical annual cash flow from operations (such as the last 12 months EBITDA or possibly an average of the prior 2-3 years EBITDA) and multiplies it by some number of years to be agreed upon by the buyer and seller. The second method is to project future annual cash flow from operations out for 5 years or more and to discount it (using the buyer's cost of money) to the present value in today's dollars. This later method (DCF) is much more robust, whereas the first method (multiple of EBITDA) is much eaiser to compute and to communicate. So even when a buyer uses the DCF method, they will likely convert their answer to a multiple of EBITDA when communicating their offer with the seller. Be aware that future cash flow is what matters to the buyer when determining what they will pay. The way you increase future cash flow is by continuing to invest and maintain your business right up to the point of a business sale transaction. You would fix up your home before selling. You will likewise secure a higher valuation by maintaining an attractive company that is poised for future growth.

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