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CERTIFIED PUBLIC ACCOUNTANTS

CONSTRUCTION INDUSTRY CPAs

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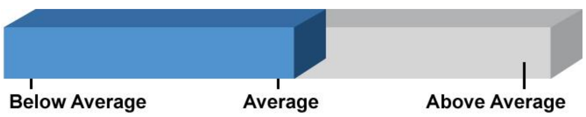
FINANCIAL REPORT

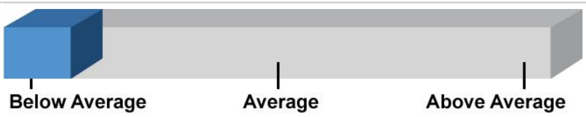
This report is designed to assist you in your business' development. Below you will find your overall ranking, business snapshot and narrative write-up.

Snapshot of: **Example Construction Co., Inc.**
Industry: 237310 - Highway, Street, and Bridge Construction
Revenue: $10M - $50M
Periods: 12 months against the same 12 months from the previous year
Prepared by: Lanter, Leonardo, and Levy
By: Rick Captain
Phone: 561-998-7770

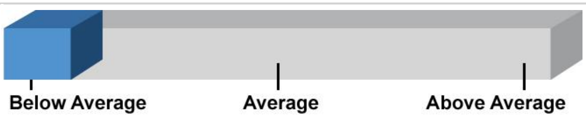
Financial Score for Example Construction Co., Inc.



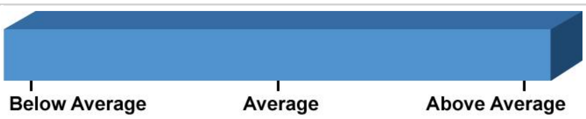
LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.



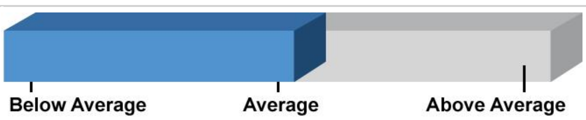
PROFITS & PROFIT MARGIN -
A measure of whether the trends in profit are favorable for the company.



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



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

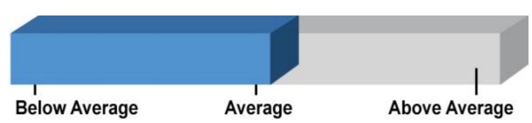


ASSETS -
A measure of how effectively the company is utilizing its gross fixed assets.

Financial Analysis for Example Construction Co., Inc.

LIQUIDITY

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



Operating Cash Flow Results

Since last period, the company has generated negative cash flow from operations and profitability (although cash flow has increased relative to sales). These are generally not favorable results, although they do not seem critical at this time, as overall and short-term liquidity appear adequate. Still, negative cash flow should be addressed, as it is the biggest driver of long-run liquidity over time.

General Liquidity Conditions

Certain liquidity components have improved this period from last period, even though the company lost money on the Income Statement side of the business. The cash and near-cash accounts have grown relative to current liabilities, which is good. Notice in the graph area of the report that the "quick ratio" has improved.

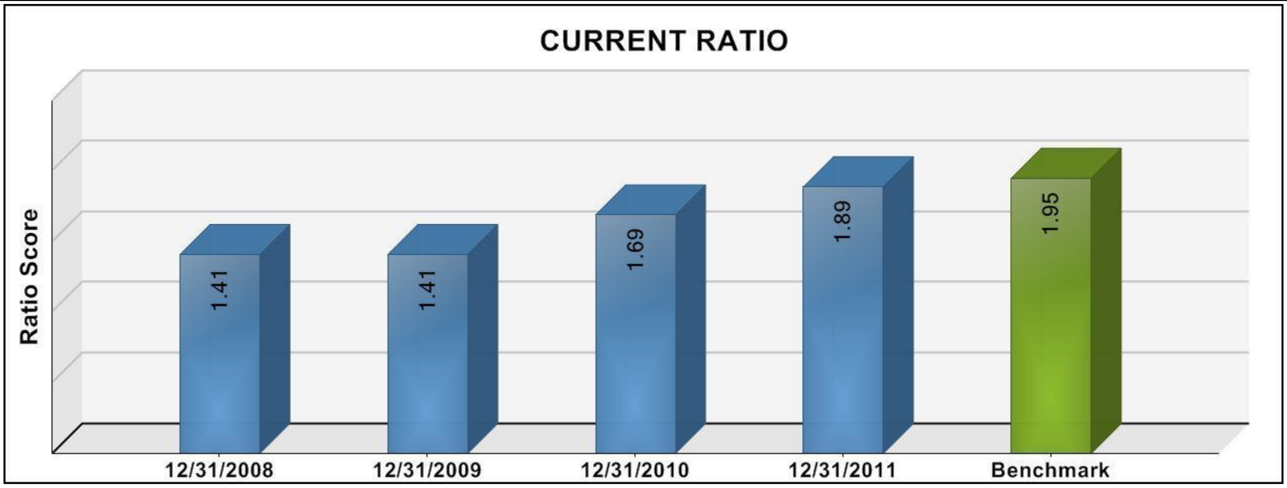
Generally, liquidity can currently be considered to be about average -- it is in line with the positions of many competitors at this particular time. However, there are several points to note. First, having "average" liquidity does not necessarily mean that management will never have to be concerned about the company's ability to pay bills and invest in growth. Companies that have great liquidity positions over time are generally able to invest significantly in resources that are crucial to growth and profits. Second, the company may need to watch net profitability at this point. Being unprofitable can lead to a loss of liquidity in the business over the short and long run. Net profit losses tend to attack the cash account specifically.

Right now, the company may need to improve its procedures for collecting receivables and paying bills. Both accounts receivable days and accounts payable days are higher than industry averages, meaning that it may be taking the company a longer time than competitors to collect money from customers and pay money to outside vendors. Creditors, for example, typically like to see a low AP days number.

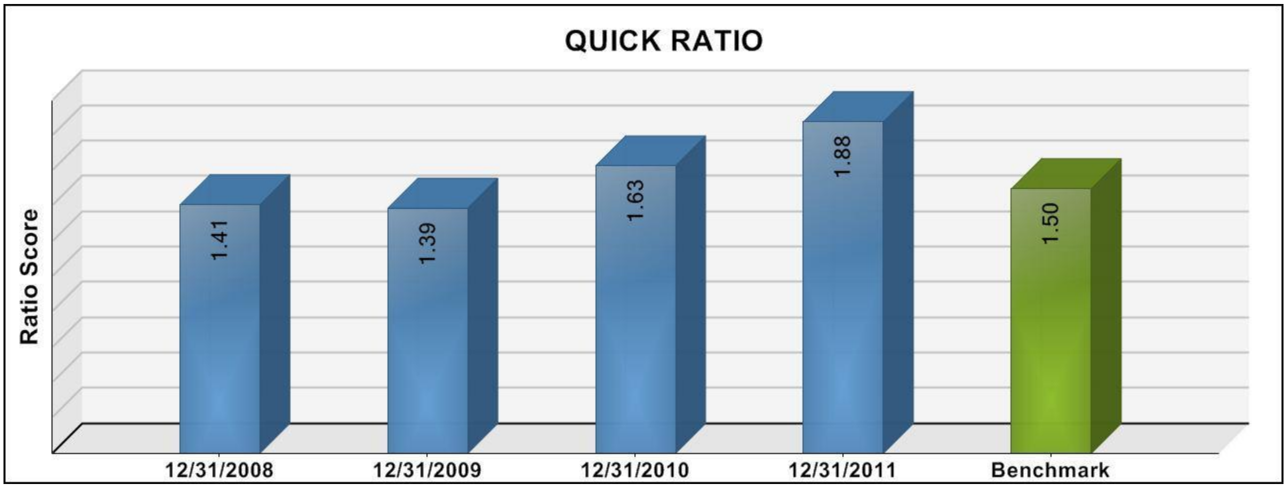
Tips For Improvement
In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

- 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.
- Monitor the impact that tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- Use a monthly or bi-monthly payroll schedule if possible to allow funds to stay in the business longer -- so long as morale will not be adversely affected.
- Eliminate or reduce unnecessary overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if those fixed costs that tend to stay the same over time can be lessened.

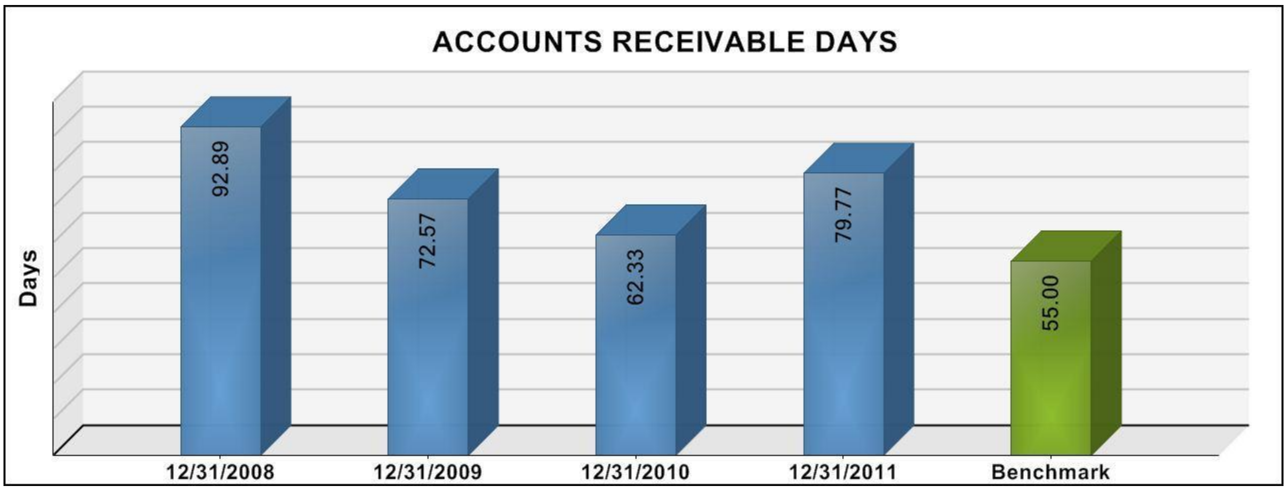
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



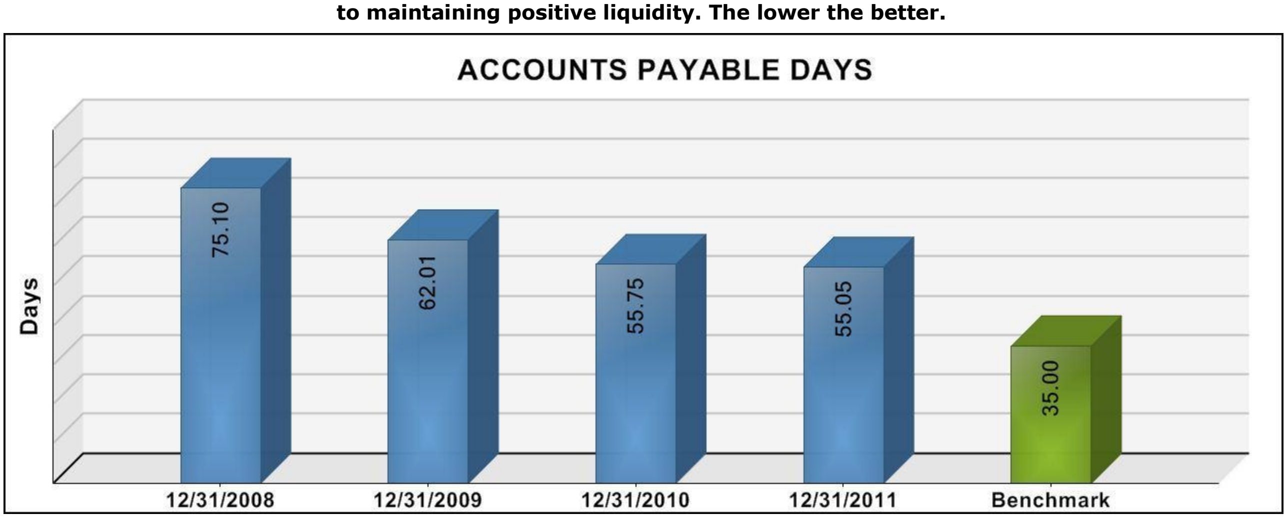
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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



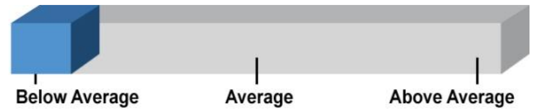
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



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.



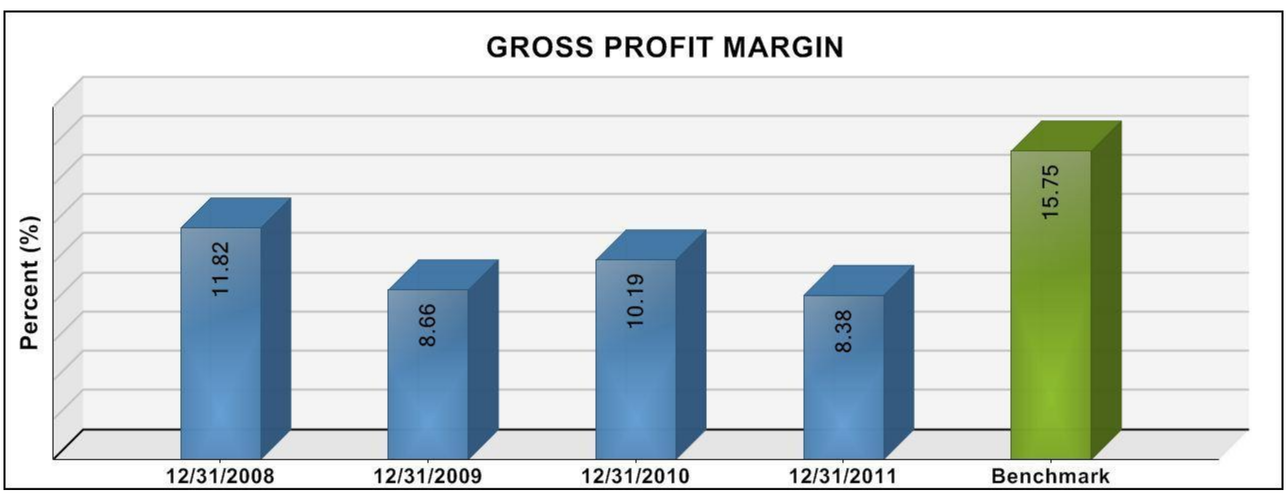
The company's profitability results from this period suggest that its gross profitability area may need some attention. The gross profit margin performance here is rather weak. Basically, the company generated fewer sales than last period, and gross margins decreased by 17.70% as well. Gross margins lever gross profits (in dollars), which allow the company to pay for its operating costs. With fewer gross profit dollars, it becomes more difficult to pay for operating costs over time. The company needs some action in the gross margin area. It is not favorable to manage less sales volume less effectively, particularly when overall net profitability is weak.

The good point here is that the company was able to cut operating costs to improve net profitability. The result was an improvement in net profit margin of 70.38% and net profit dollars of 74.21%. The company is now paying a smaller percentage of its sales revenue out in overhead and operating expenses, and is thus able to retain more net profits, despite the declines in sales and gross profits. The cuts were a good and crucial move because of the gross profit issues -- it is good management to make up for declines in one area with improvements in another area.

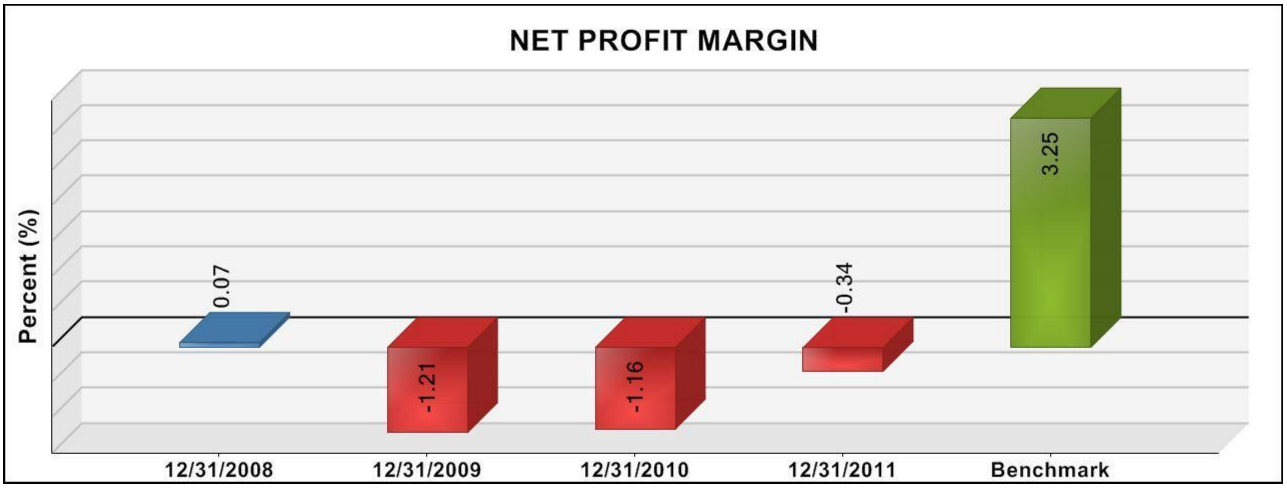
Even though net profitability improved quite a bit from last period, the company is still not generating enough profitability, as was the case last period as well. The company's net margin is weak, both generally and relative to the net margins being earned by competing firms at this time; this is illustrated in the graph area of the report. The company needs to keep improving net profitability so it can earn an average level of profitability for the industry.

Tips For Improvement
Here are some specific actions or suggestions/ideas that managers MAY want to consider in order to improve profitability in the company:

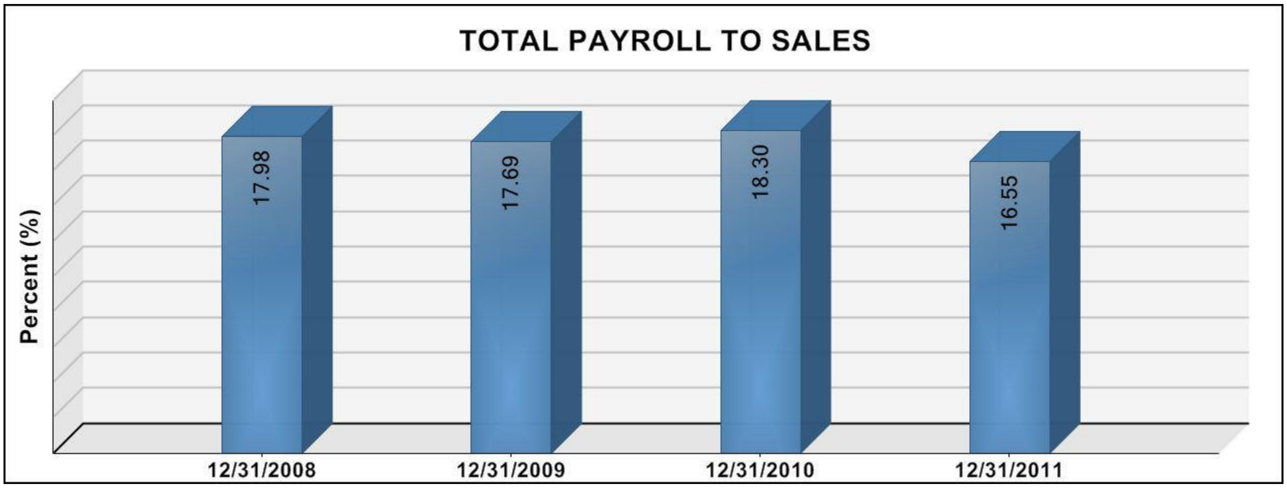
- Find low cost suppliers that are reliable and provide quality goods. Work out a way to have vendors deliver right to the job site, when needed, to reduce material handling costs.
- Service the customer in a manner that provides the highest potential for repeat business. Work to meet the specific needs of customers. Answer questions promptly, knowledgeably, and politely during the job and send thank-you notes after the completion of the job.
- Fix problems with roads/bridges quickly. This is a good way to create quality and differentiate from competitors who are not as prompt. Follow up with all requests in a timely manner.
- Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts) allowing management to have the ability to pull "variance reports".



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).



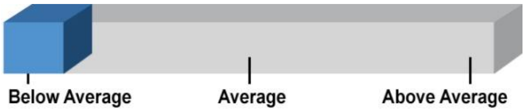
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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



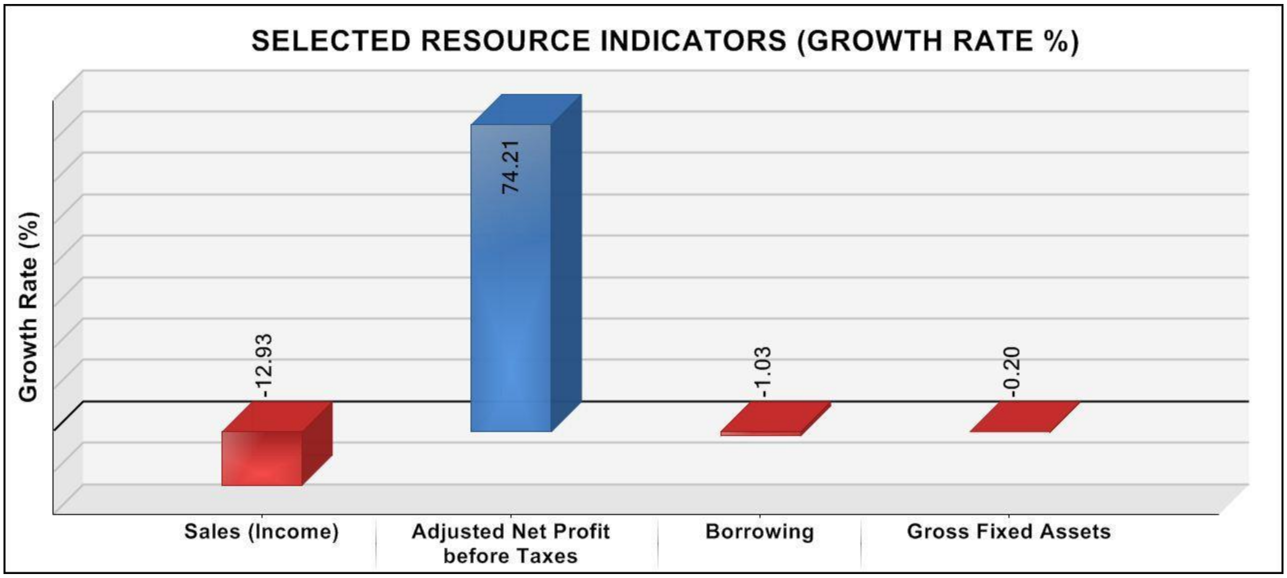
This metric shows total payroll expense for the company as a percentage of sales.

SALES

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

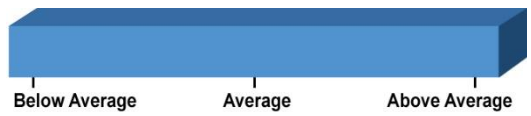


The company's sales have fallen this period, while fixed assets remained relatively stable. This dynamic could negatively affect net profitability if sales continue to fall in the future. Typically, companies want to see revenue increasing over time; this is true because the cost of business continually 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.



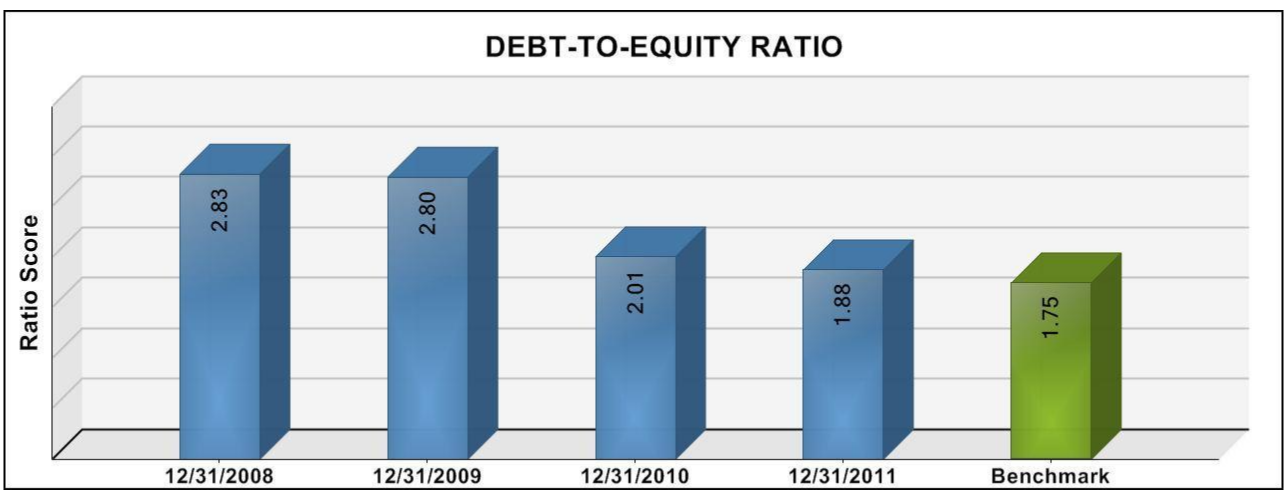
BORROWING

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

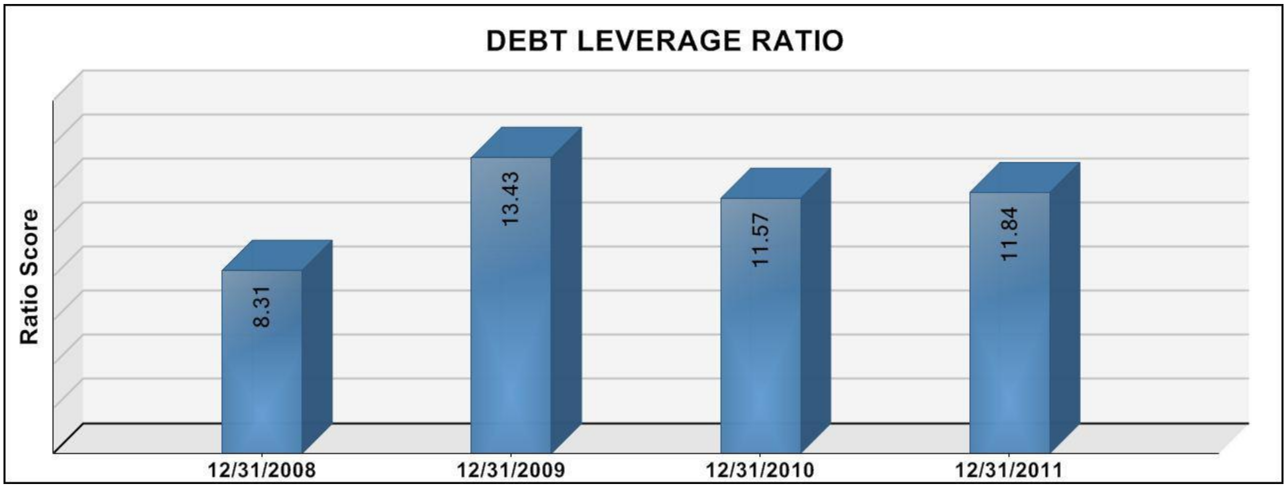


Profitability improved significantly this period with no significant change in debt. This is a very good result. The company also improved its net profit margins. All of this is positive because it means that the efficiency of the debt has been improved. There does not **seem** to be a correlation at this time between debt and profitability, since profitability improved on an even debt base. Yet, it might be interesting to determine if there were any prior period changes (increases or decreases) in debt that might have helped profitability this period. If not, the company has improved Income Statement performance without adding significant debt, which is positive.

Relative to its industry, the company currently has a moderate amount of debt as compared to equity. This is interesting, considering the fact that the company is not reporting net interest charges. In most cases, debt is accompanied by net interest charges. It would also be noteworthy to review if the company has significant cash balances that earn interest, which could have set the interest coverage ratio artificially low for the period.



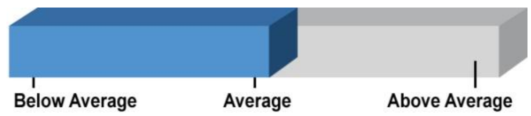
This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.



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

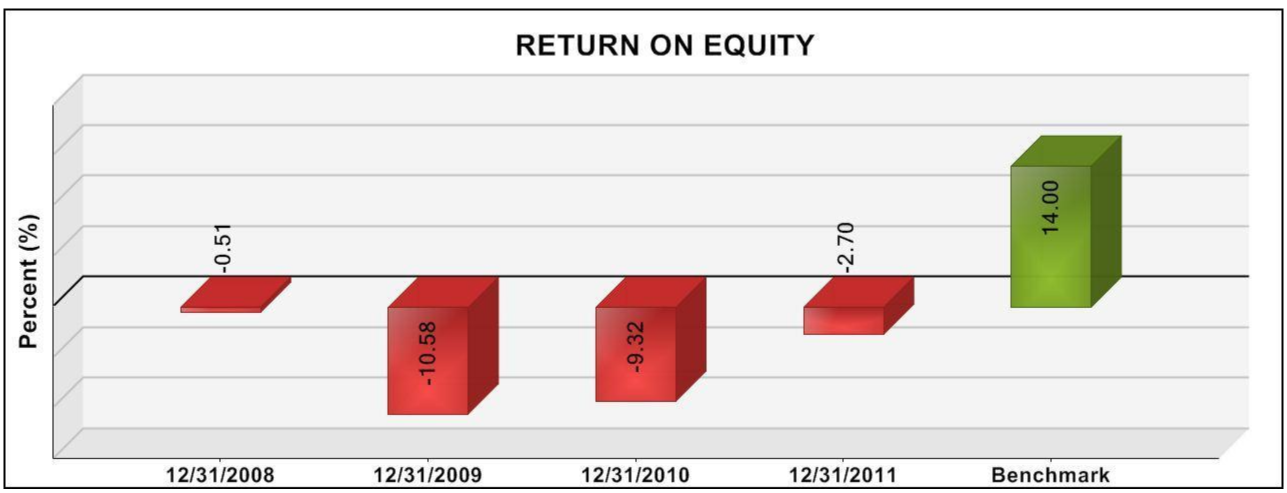
ASSETS

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

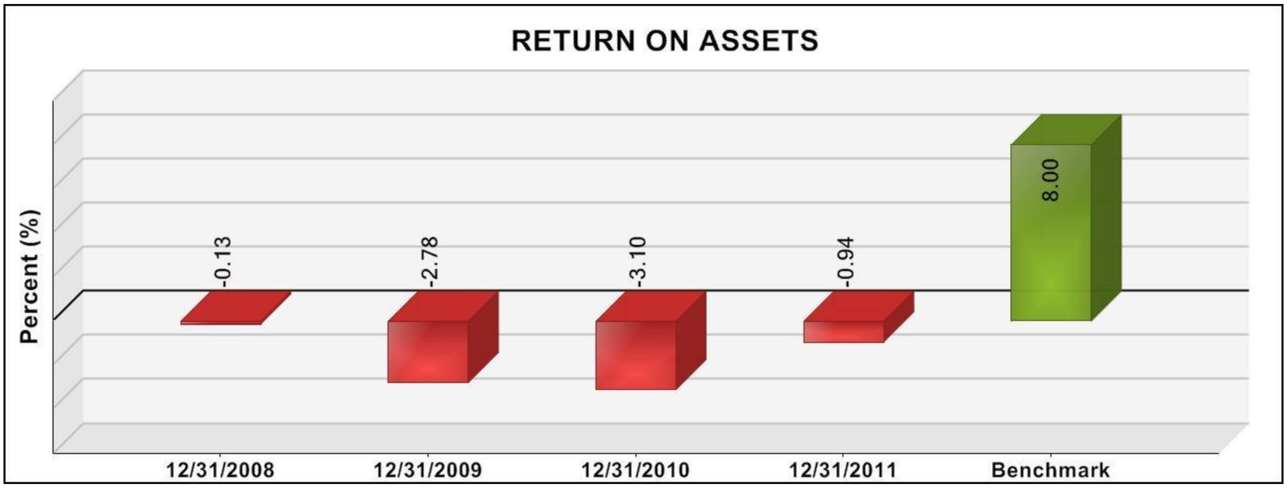


These are some very good results, at least for this section. The company considerably improved profitability with about the same level of resources (fixed assets). This means that the company is now using its assets more effectively. It **may** also indicate that the company might have some room to further grow profitability within its current operating environment (while maintaining relatively the same level of assets). Furthermore, note the improvement in the net profit margin. The company has become more efficient within its present structure.

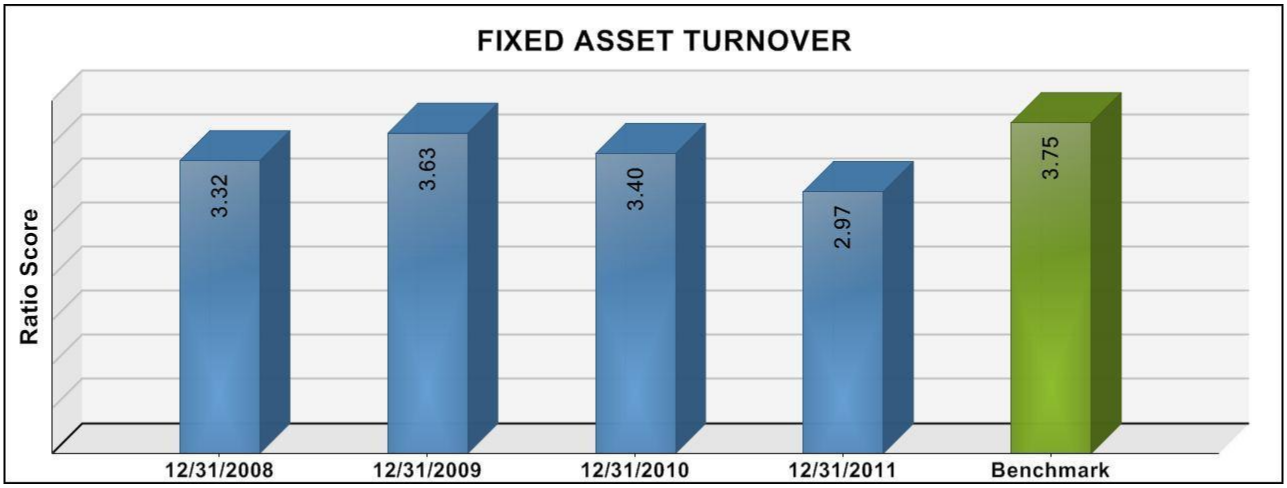
The company seems to be doing an average job managing its assets. However, it generated relatively poor returns on assets and equity this period, which is somewhat concerning. It appears that the company is doing an adequate job using its fixed asset base to produce sales. If the company can do a good job of using its fixed assets to generate sales in subsequent periods, it may help the company improve its returns.



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.

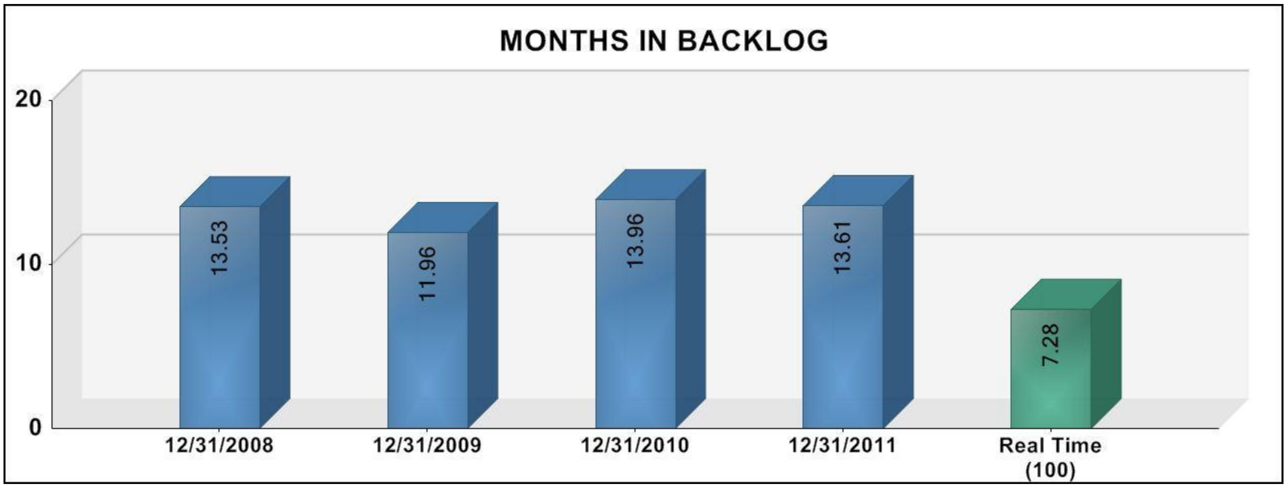


This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

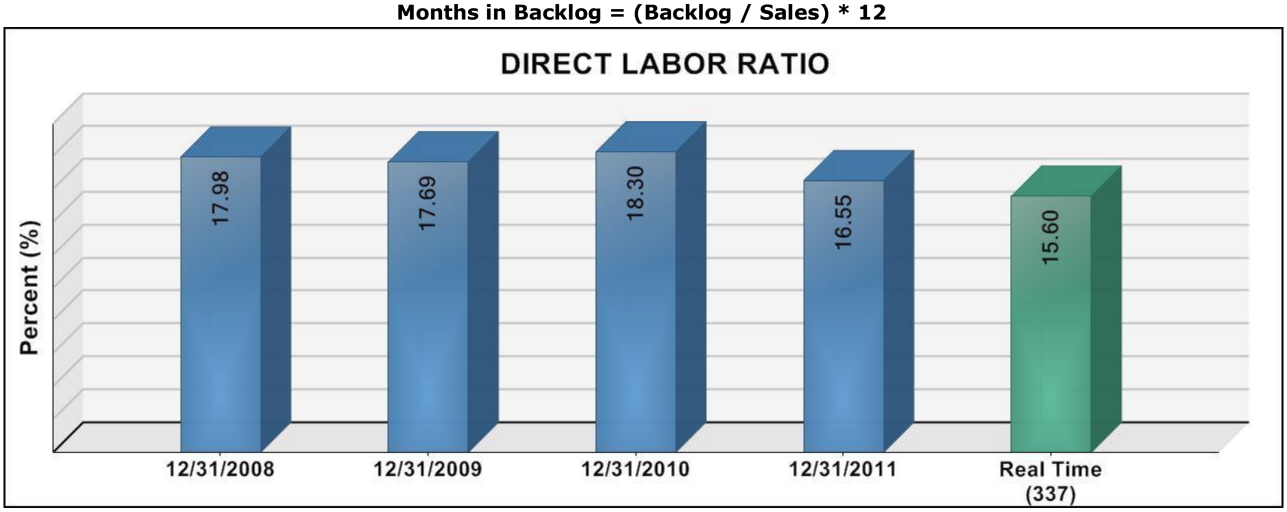
INDUSTRY-SPECIFIC PERFORMANCE RATIOS

What are the Key Performance Indicators for the business?

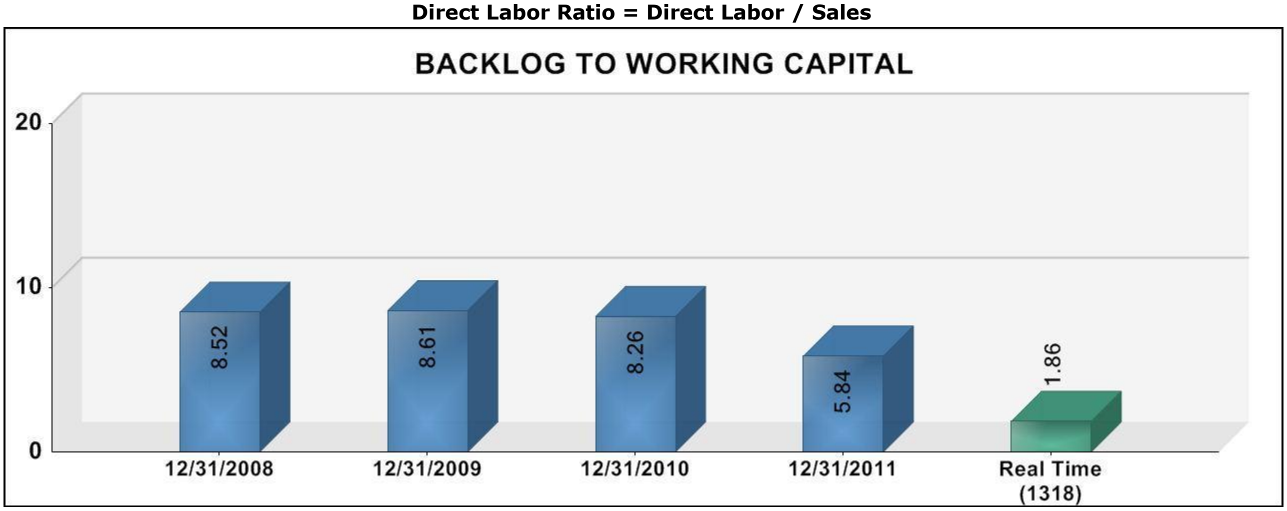
This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry. Track these KPIs over time and compare them to the industry benchmarks to identify areas where the business might be able to improve operations.



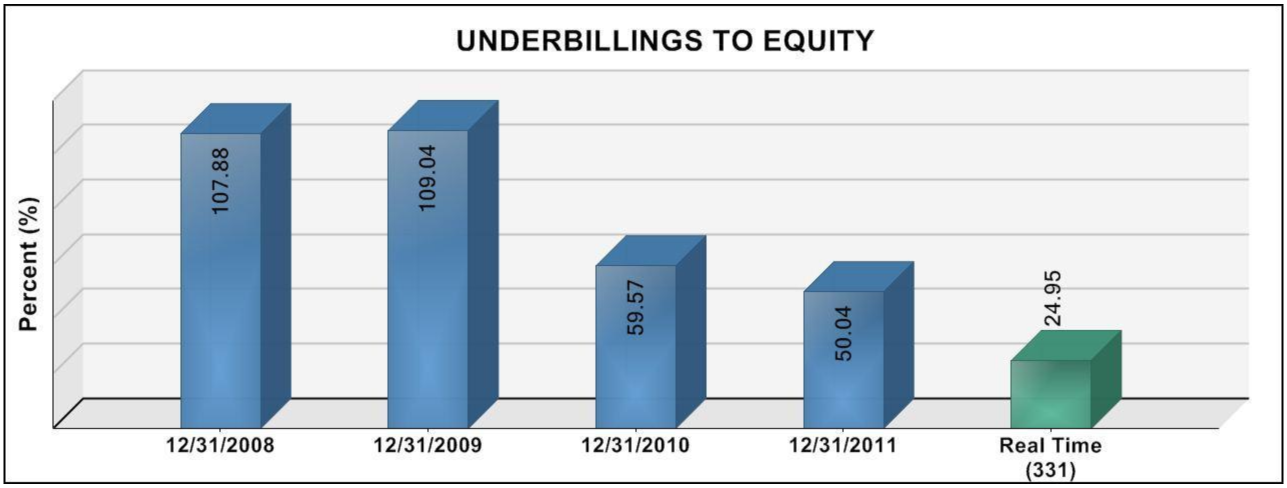
Months in Backlog = (Backlog / Sales) * 12



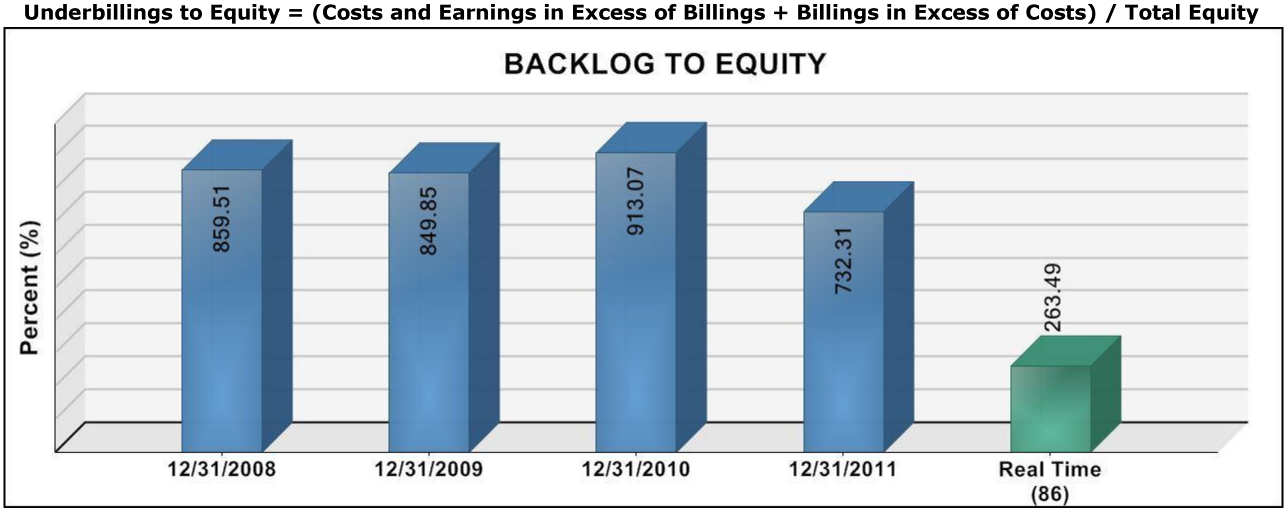
Direct Labor Ratio = Direct Labor / Sales



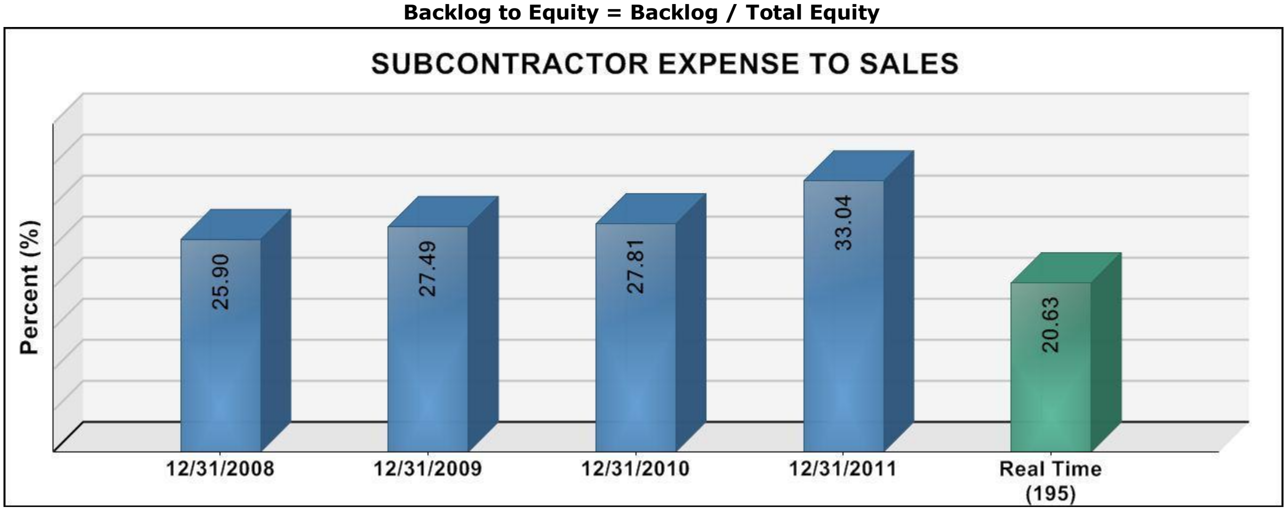
Backlog to Working Capital = Backlog / (Current Assets - Current Liabilities)



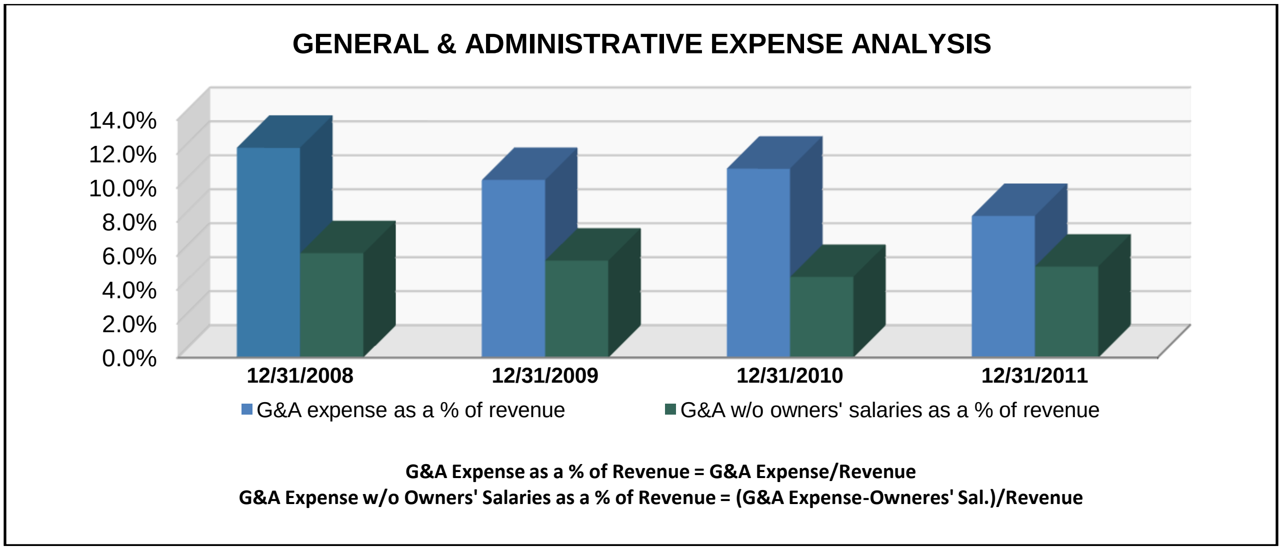
Underbillings to Equity = (Costs and Earnings in Excess of Billings + Billings in Excess of Costs) / Total Equity



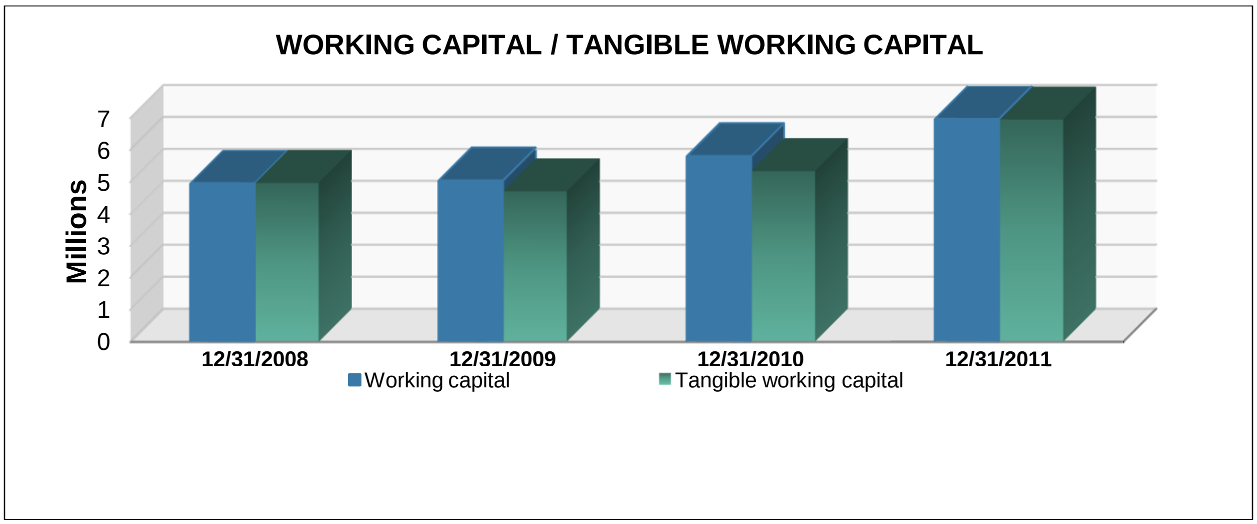
Backlog to Equity = Backlog / Total Equity



Subcontractor Expense to Sales = Subcontractor Expense / Sales



G&A Expense as a Percentage of Revenue indicates the fixed cost home office overhead rates for the contractor.



Tangible Working Capital includes working capital less accounts receivable greater than ninety days old, underbillings, prepaid assets, deferred income taxes and fifty percent of inventory. Surities discount these cuurent assets in determining your company's bonding capacity

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.).