Performance Review

For the period ended 12/31/2011

Provided By

Tax Force Inc

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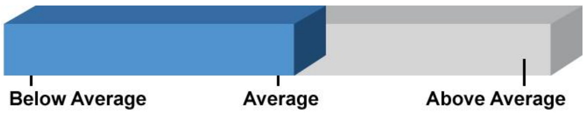
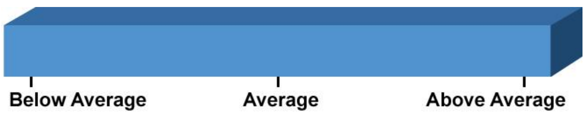
This report is designed to assist you in your business' development. Below you will find your overall ranking, business snapshot and narrative write-up.

Snapshot of: **Wholesale Sample**
Industry: 42321 - Furniture Merchant Wholesalers
Revenue: Less than $1M
Periods: 12 months against the same 12 months from the previous year

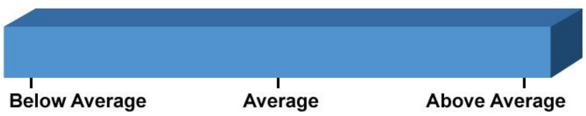
Financial Score for Wholesale Sample



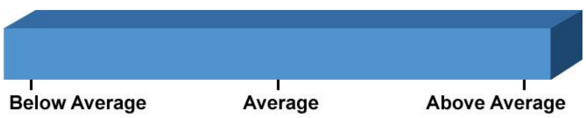
LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.



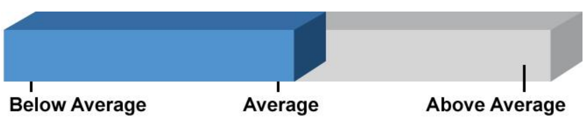
PROFITS & PROFIT MARGIN -
A measure of whether the trends in profit are favorable for the company.



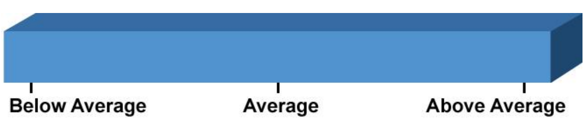
SALES -
A measure of how sales are growing and whether the sales are satisfactory for the company.



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.

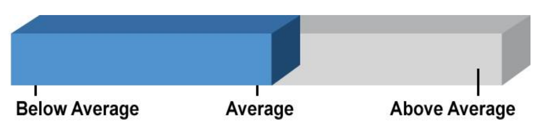


EMPLOYEES -
A measure of how effectively the company is hiring and managing its employees.

Financial Analysis for Wholesale Sample

LIQUIDITY

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



Operating Cash Flow Results
There is a positive relationship between profits and cash flow for this company, which is good. The company is generating strong cash flow from operations at the end of the period. Over the longer run, these types of results can help boost overall liquidity conditions, which will be discussed in more depth in the next section.

General Liquidity Conditions
We start the expert analysis with liquidity because, despite inherent limitations to liquidity analysis, it is most important that a company keep enough resource in the company to retire bills as they come due.

The company's liquidity position **is about average**. This means that the firm has a fair ability to pay its bills in a timely manner, at least as of this specific Balance Sheet date. Clearly positive is that the liquidity position has improved from last period. A specific area of progress came in the highly liquid current asset accounts. The quick ratio rose, which means that the top current accounts rose relative to obligations. Any improvements in liquidity should be noted because trends are much more important than raw data.

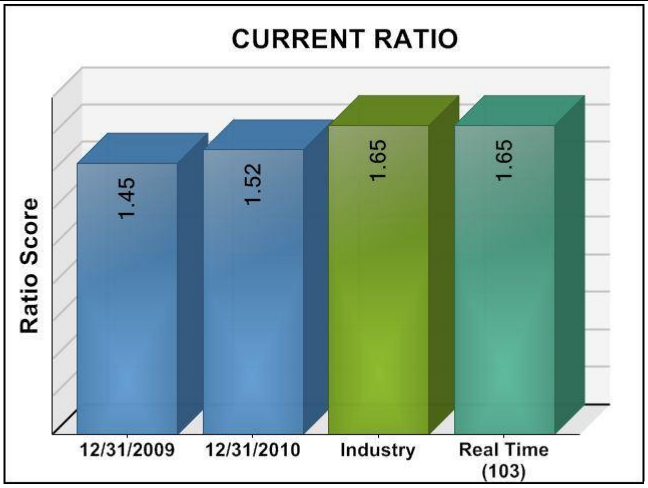
However, it should also be recognized here that the company's liquidity position might possibly use some improvement over time. It would be desirable to build the overall liquidity base as well as the cash accounts, as having fair liquidity may imply that it will occasionally be difficult to pay the bills. Though these models are not predictive, it might be beneficial to improve the company's position in this area.

It looks like the company may be having some difficulty in selling/turning inventory, as evidenced by its relatively high inventory days ratio. Only managers inside of a company can know how important inventory is to the overall management of the company. Still, it is generally preferred that this component of liquidity is more in line with industry standards, as it can affect the cash account over time.

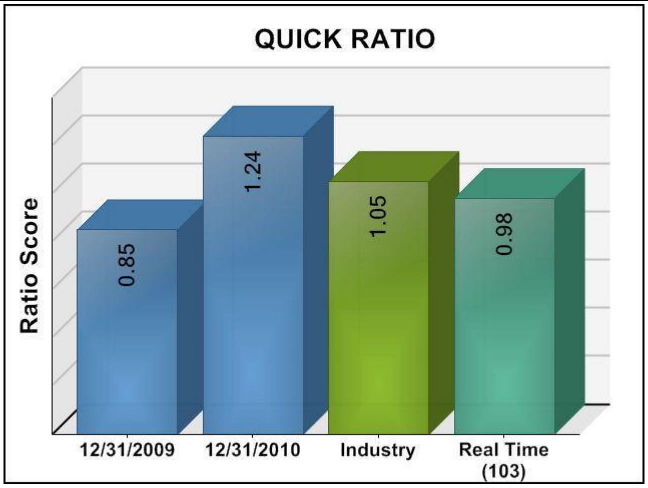
Tips For Improvement
In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

- 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. Current Balance Sheet obligations (such as debt on purchased assets) are uses of cash.
- Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice. This will extend Accounts Receivable and hurt cash flow.
- Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process which can significantly improve the firm’s cash position.
- Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis. This can help predict/prepare for potential cash shortfalls that may occur in the future.

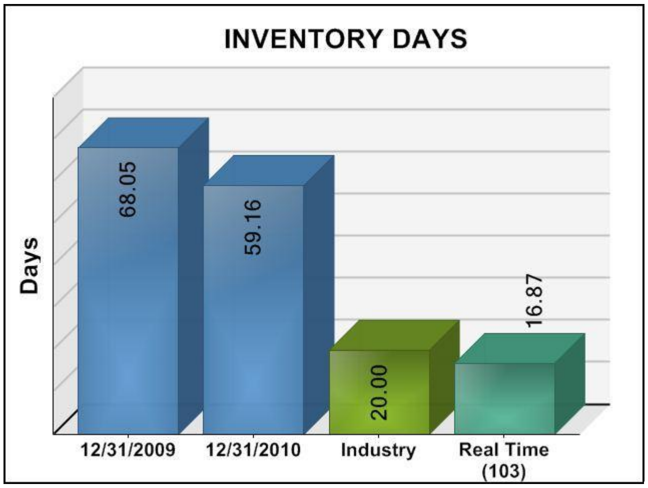
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



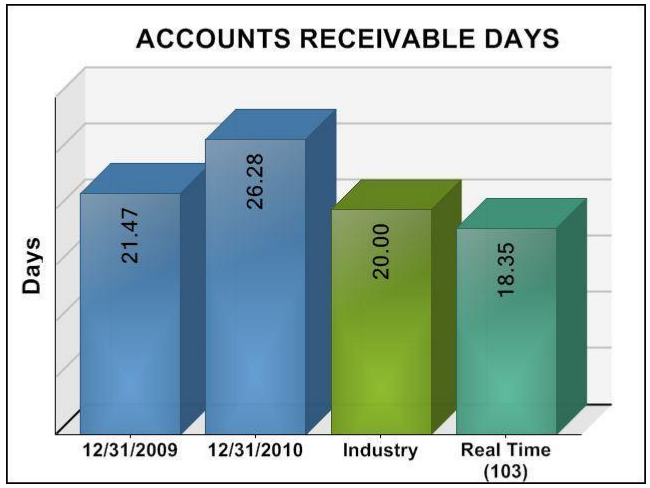
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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



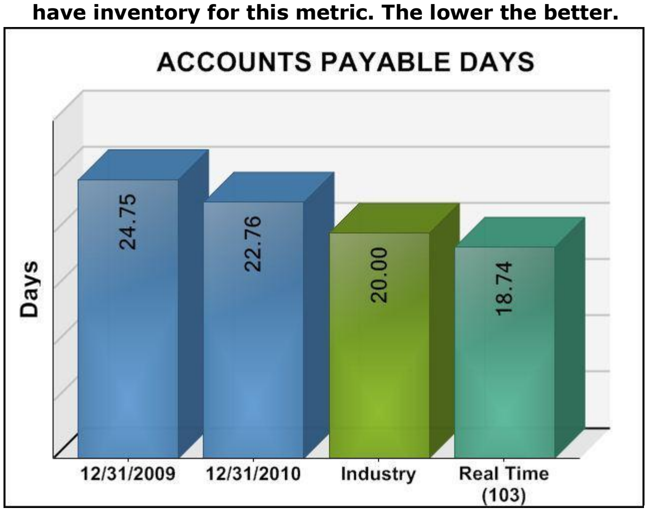
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.



This 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.



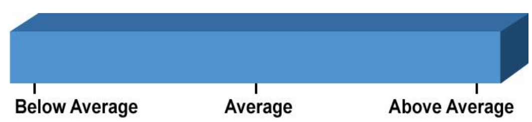
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



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.



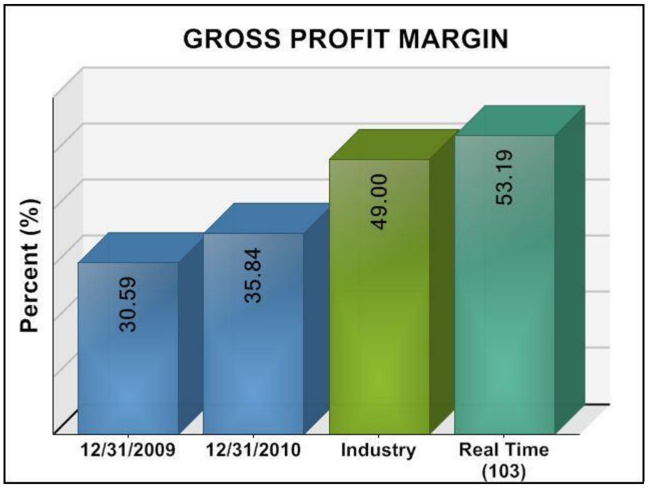
This company has experienced rises in many of its profitability statistics this period, and has generally performed well in the Profitability area; there are almost no issues to address here at this time. For example, note the company's significant increase in gross profits and gross margins: the company has brought in considerably more sales and has managed them better as well -- direct costs have fallen as a percentage of sales. This means that the company is pulling more cents of gross profit out of each sales dollar. It will help the company over time if it can increase sales and manage direct costs (cost of sales) better -- this will push more gross profits down through the company. This dynamic is called operating leverage.

Moreover, the net profit margin is quite good and healthy, both generally and relative to the net margins that are being earned by other firms in this industry. This was the case last period as well, which is highlighted in the graph area of the report. However, do keep in mind that the net margin has slipped from last period, and this is something the company might want to watch. Ideally, companies expect to see higher net margins accompany increases in sales and net profit dollars. The reason that this company did not see these results is that some operating costs are much higher now than they were last period. It is quite interesting to note that the practical effect of this is that higher costs clearly diminished the scope by which profits might have grown (a kind of opportunity cost).

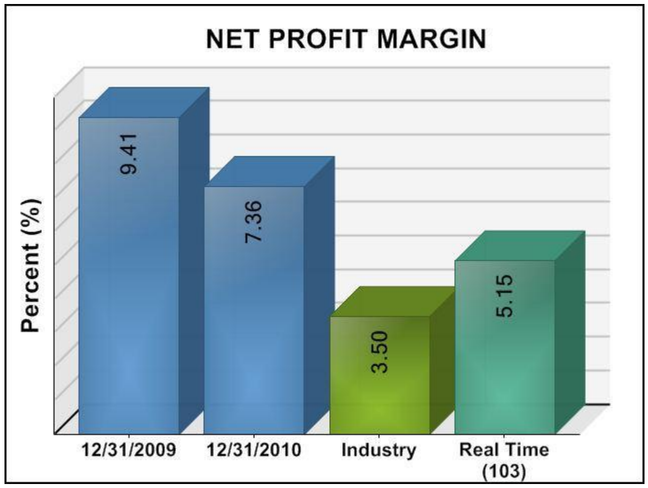
Tips For Improvement

Managers may want to consider actions that could drive even greater profits over time. Here are some potential ideas that might be helpful:

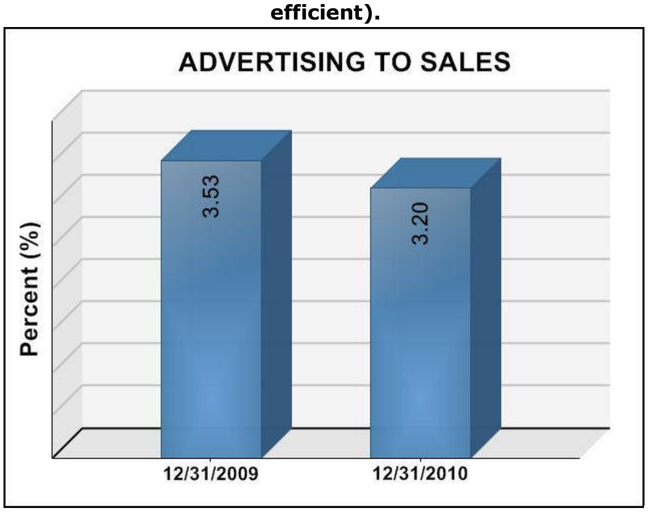
- Use RFID technology to track your inventory. This will help you to improve inventory management and decrease cost of sales.
- Be sure to subscribe to and READ the trade journals dealing with wholesale. Typically, there is no greater source of good operational information than a trade journal and there are many ideas that can help managers increase sales and keep customers.
- Obtain internal reports that identify the business's key performance indicators (KPIs), which help managers make good decisions by identifying the figures that are critical to performance.
- Evaluate profitability on a product-specific basis using good internal reports. Determine the most profitable products and focus efforts on them. It is very hard to run a successful business without knowing the causes of success.



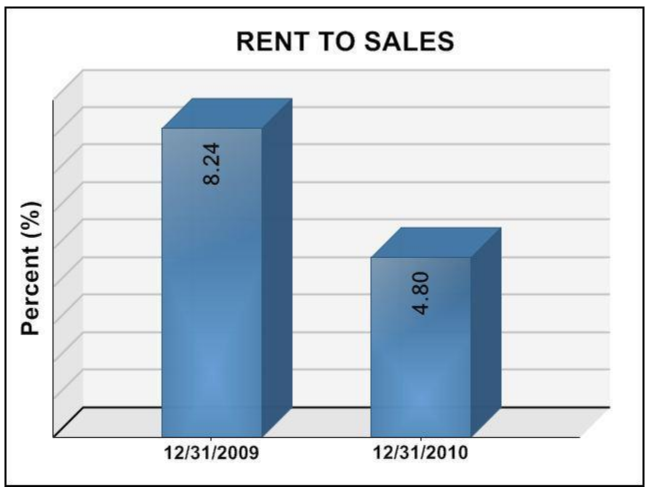
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).



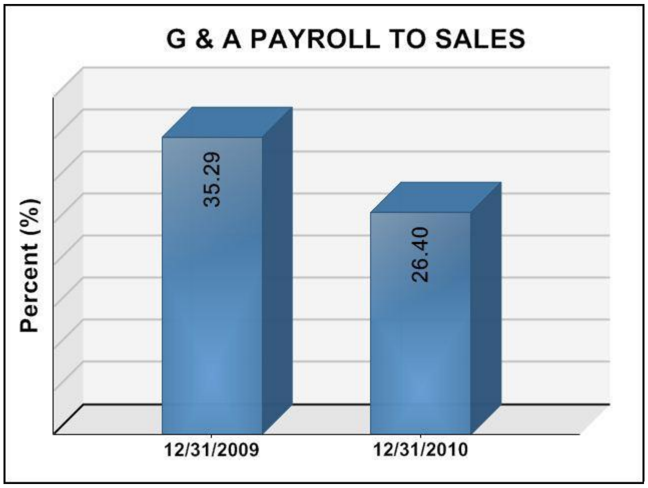
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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



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



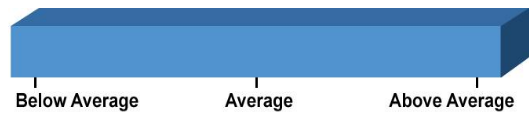
This metric shows rent expense for the company as a percentage of sales.



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

SALES

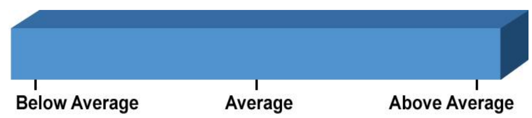
A measure of how sales are growing and whether the sales are satisfactory for the company.



Sales have increased substantially. The company has strong results in the sales area. It looks like the company has also bought a substantial amount of fixed assets and hired additional people. Even with additional employees, the company is generating more **revenue per employee**, a long run key performance indicator (KPI) in this sector/industry. However, this report does not draw too many conclusions in the Sales section because **the real goal of the company is increasing profitability** over time, not just increasing sales. Sales increases, in and of themselves, do not indicate that much.

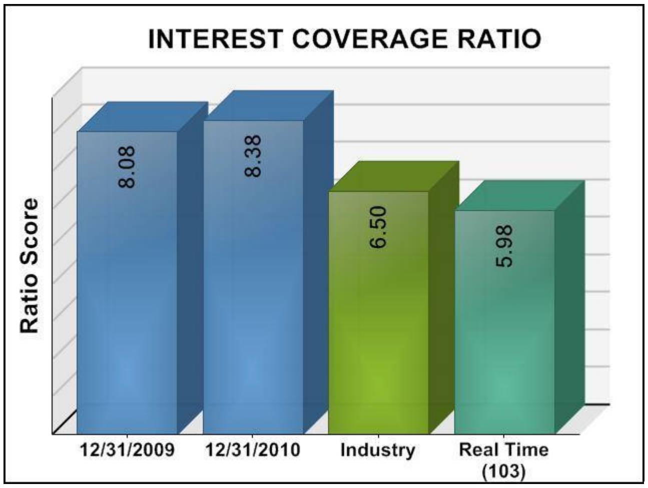
BORROWING

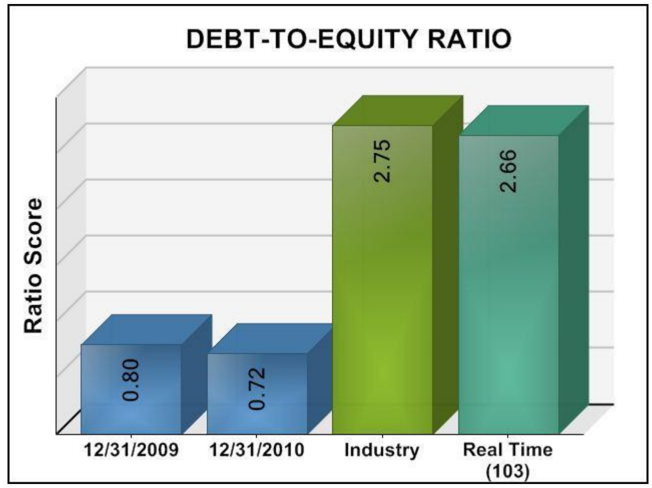
A measure of how responsibly the company is borrowing and how effectively it is managing debt.



Borrowing (using leverage) is a valuable tool for a business, if used effectively. The company performed well here. Profitability increased by a greater rate (by 15.00%) than debt from last period, which also went up. In fact, this situation should even lead to an improvement in the returns that owners earn (return on equity). Still, whenever increasing debt levels, it is important to examine any drops in the net profit margin. This is because borrowing money puts the company at greater risk in the future.

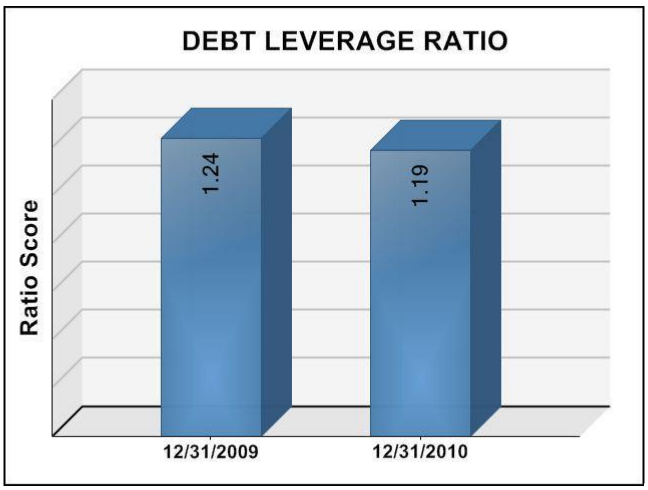
There are a few other notes. The overall score in this area is quite good. The company does not have substantial amounts of debt on its Balance Sheet when compared with other companies in the industry. Also, it seems to be generating "average" earnings (before interest and non-cash expenses) compared to its interest obligations. Since debt is used less than in other similar companies, it could be that debt is generally less important to overall conditions. Additional exploration of this issue by managers would be necessary for further conclusions.





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.

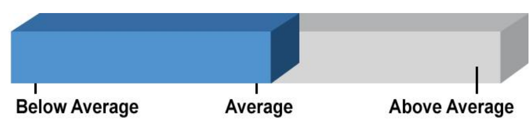
This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return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



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

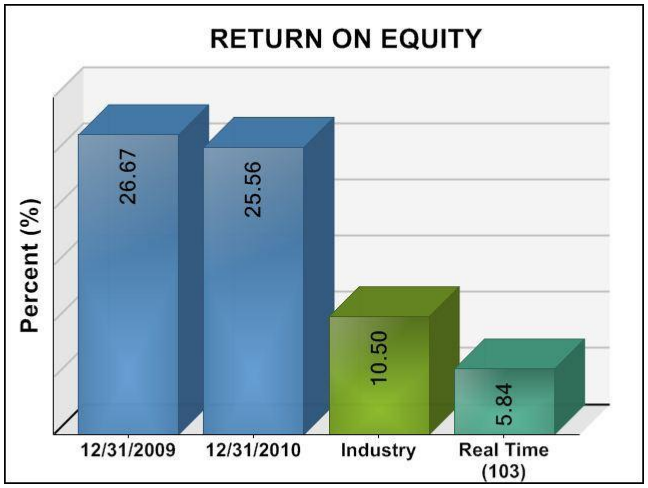
ASSETS

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

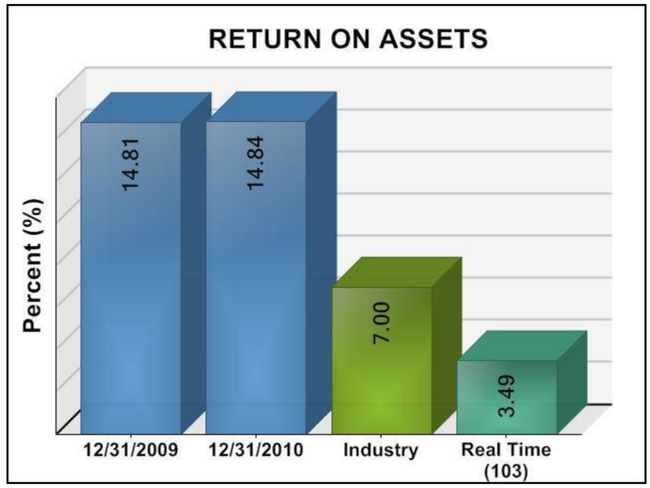


The net profit margin fell as fixed assets were added. This means that the company is now less efficient with the new assets than it was previously without them. This drop in profit margin could have nothing to do with the new assets, but it is generally true that margins should improve as resources like assets are added. Another issue is that profitability improved this period at a slower rate than fixed assets. It is positive to have better profitability than last period, but the long-term goal should be to improve profitability at a faster rate than the rate at which assets are added.

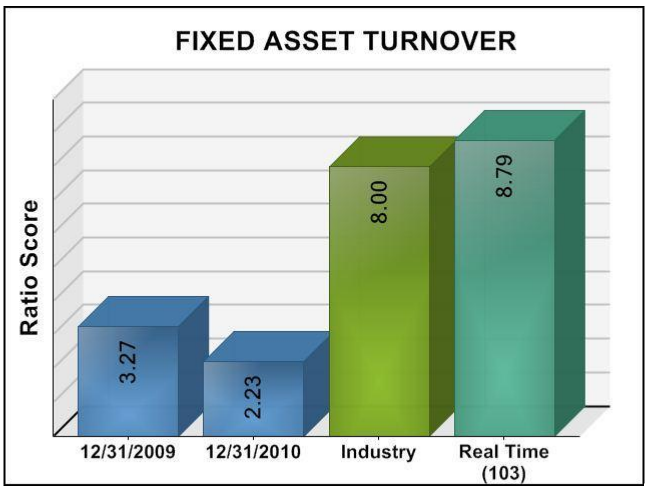
Notice that the company generated a relatively strong return on assets and equity this period. This is a positive result for both investors/owners and creditors of the company. Assets generally represent a cost to the company that is expected to reap future benefits, so it is good to see the company earning strong profitability relative to its assets.



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.



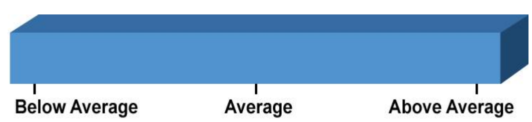
This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher 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.

EMPLOYEES

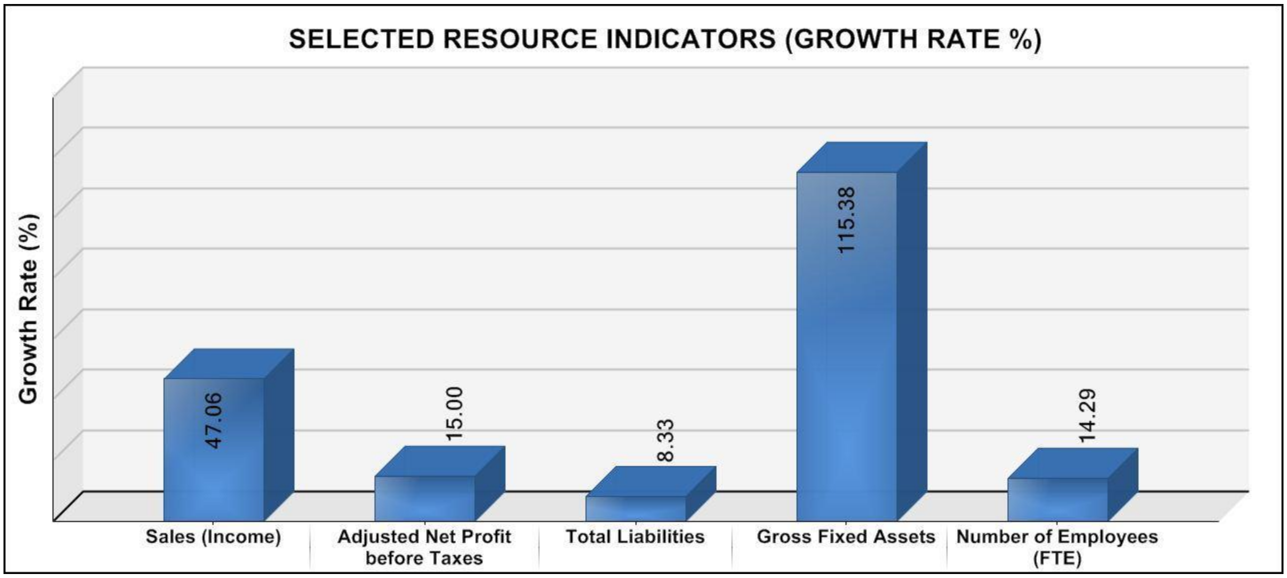
A measure of how effectively the company is hiring and managing its employees.



The company has performed well with respect to employee management this period. Net profitability has improved while the employee base has grown. It is important, and positive, to note that net profitability has improved even faster than the employee base has grown. If managers can establish that the employees who were hired have actually helped to improve profitability, then there are some **general** signals here that support hiring more people as long as they can continue to improve net profitability.

However, there is one point to be cautious of: the company has increased its fixed assets significantly this period. Assets are another resource that can drive profitability. Managers should try to determine which resource (assets or employees) is the better lever of net profitability - this is the resource that managers may want to use to increase profitability further in the future. Both assets and employees **may** have helped improve profitability, or perhaps neither one played a direct role in the profitability improvement. Managers will need to assess this carefully. This report can point out general trends, but it can not establish cause-and-effect relationships -- these relationships must be found from inside the company.

"Loyalty is developed through the unifying of action. The more decisive the action becomes, the greater the bond." -- Brigadier General S.L.A. Marshall



RAW DATA

Income Statement Data	12/31/2009	12/31/2010
Sales (Income)	$425,000	$625,000
Cost of Sales (COGS)	$295,000	$401,000
Gross Profit	$130,000	$224,000
Gross Profit Margin	30.59%	35.84%
G & A Payroll Expense	$150,000	$165,000
Rent	$35,000	$30,000
Advertising	$15,000	$20,000
Depreciation	$45,000	$50,000
Interest Expense	$12,000	$13,000
Net Profit Before Taxes	$40,000	$46,000
Adjusted Net Profit before Taxes	$40,000	$46,000
Net Profit Margin	9.41%	7.36%
EBITDA	$97,000	$109,000
Net Income	$40,000	$46,000

Balance Sheet Data	12/31/2009	12/31/2010
Cash (Bank Funds)	$60,000	$85,500
Accounts Receivable	$25,000	$45,000
Inventory	$55,000	$65,000
Total Current Assets	$145,000	$160,000
Gross Fixed Assets	$130,000	$280,000
Total Assets	$270,000	$310,000
Accounts Payable	$20,000	$25,000
Total Current Liabilities	$100,000	$105,000
Total Liabilities	$120,000	$130,000
Total Equity	$150,000	$180,000
Number of Employees (FTE)	3.5	4.0

COMMON SIZE STATEMENTS

Income Statement Data	12/31/2009	12/31/2010	Industry* (323)
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	69%	64%	64%
Gross Profit	31%	36%	36%
G & A Payroll Expense	35%	26%	13%
Rent	8%	5%	4%
Advertising	4%	3%	1%
Depreciation	11%	8%	1%
Interest Expense	3%	2%	1%
Net Profit Before Taxes	9%	7%	3%
Adjusted Net Profit before Taxes	9%	7%	3%
EBITDA	23%	17%	5%
Net Income	9%	7%	3%

Balance Sheet Data	12/31/2009	12/31/2010	Industry* (323)
Cash (Bank Funds)	22%	28%	11%
Accounts Receivable	9%	15%	29%
Inventory	20%	21%	25%
Total Current Assets	54%	52%	83%
Gross Fixed Assets	48%	90%	42%
Total Assets	100%	100%	100%
Accounts Payable	7%	8%	27%
Total Current Liabilities	37%	34%	56%
Total Liabilities	44%	42%	74%
Total Equity	56%	58%	26%

*The industry common size figures shown above were taken from all private company data for companies with industry code 42321 for all years in all areas with yearly sales $1 million to $10 million.

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.52	1.20 to 2.10	0.00%
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	1.24	0.70 to 1.40	0.00%
Inventory Days = (Inventory / COGS) * 365	59.16 Days	10.00 to 30.00 Days	-97.20%
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	26.28 Days	10.00 to 30.00 Days	0.00%
Accounts Payable Days = (Accounts Payable / COGS) * 365	22.76 Days	10.00 to 30.00 Days	0.00%
Gross Profit Margin = Gross Profit / Sales	35.84%	42.00% to 56.00%	-14.67%
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	7.36%	1.00% to 6.00%	+22.67%
Interest Coverage Ratio = EBITDA / Interest Expense	8.38	3.00 to 10.00	0.00%
Debt-to-Equity Ratio = Total Liabilities / Total Equity	0.72	1.50 to 4.00	+52.00%

Current Ratio — 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 — 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 — 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 — 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 — 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 — Explanation: 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).

Net Profit Margin — 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.

Interest Coverage Ratio — 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 — 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 = Total Liabilities / EBITDA	1.19	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 = Net Income / Total Equity	25.56%	6.00% to 15.00%	+70.40%

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 = Net Income / Total Assets	14.84%	4.00% to 10.00%	+48.40%

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 = Sales / Gross Fixed Assets	2.23	4.00 to 12.00	-44.25%

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.).