Financial Score

Sample Construction, Inc.

Narrative Report

Industry: 236220 – Commercial and Institutional Building Construction
Revenue: $10M - $50M
Periods: 12 months against the same 12 months from the previous year
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Report Summary

Liquidity 40 out of 100

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

Operating Cash Flow Results

The company is generating a healthy amount of cash flow from operations this period, and cash flow has risen relative to sales since last period. These are good results, particularly since the overall liquidity position may not be ideal at this time. Often, both the Income Statement and the Balance Sheet must be managed effectively to achieve solid cash flow results.

General Liquidity Conditions

The company's liquidity position has decreased this period. In fact, both the company's overall liquidity position (as measured by the current ratio) and its cash and near-cash accounts (as measured by the quick ratio) have declined relative to its financial obligations.

This is not good for two reasons. **First,** the company should have been able to improve its liquidity position given that profits are much higher this period than last period. It looks like some of the extra profit earned may have been invested in some "Balance Sheet" transactions. Normally, there's nothing wrong with this if the company's liquidity position is sound. In this case, it is not. **Second,** the company's overall liquidity position is weak, which specifically means that there are not a lot of current assets on hand to meet obligations.

The only mitigating factor is the fact that specific cash and/or near-cash accounts are not excessively weak. This means that the company has a "fair" amount of these highly liquid accounts on hand as compared to obligations. Nevertheless, trends are very important in this area. It is not positive to see liquidity falling across the board. We certainly do not want to see the company continue to decline in this area.

There are some mixed results when considering the company’s liquidity turnover ratios. The company's inventory days ratio is better than the industry average, which is good, as it indicates the company is converting inventory to sales relatively quickly. Yet, accounts receivable days are not quite as good as many of its competitors. Over time it might be favorable to see AR days decrease, because collecting receivables quickly is one of the more important parts of good cash flow management.

Tips For Improvement

Here are some ways that liquidity might be improved in this particular business:

- 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.
- Set longer terms for Accounts Payable when possible. For example, increase a 30 day payment window to 60 days.
- Sell any unnecessary/unproductive assets the business may have to increase cash. These are assets that are not contributing sufficiently to the generation of income and cash flow.
- 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.

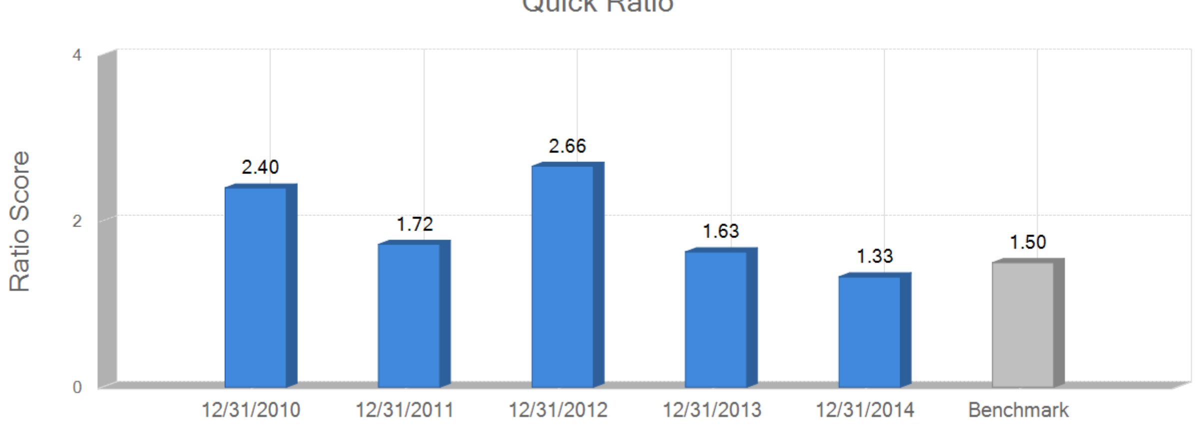
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.

Current Ratio

Ratio Score
4
2
0
3.09
2.03
3.17
2.11
1.48
2.00
12/31/2010
12/31/2011
12/31/2012
12/31/2013
12/31/2014
Benchmark

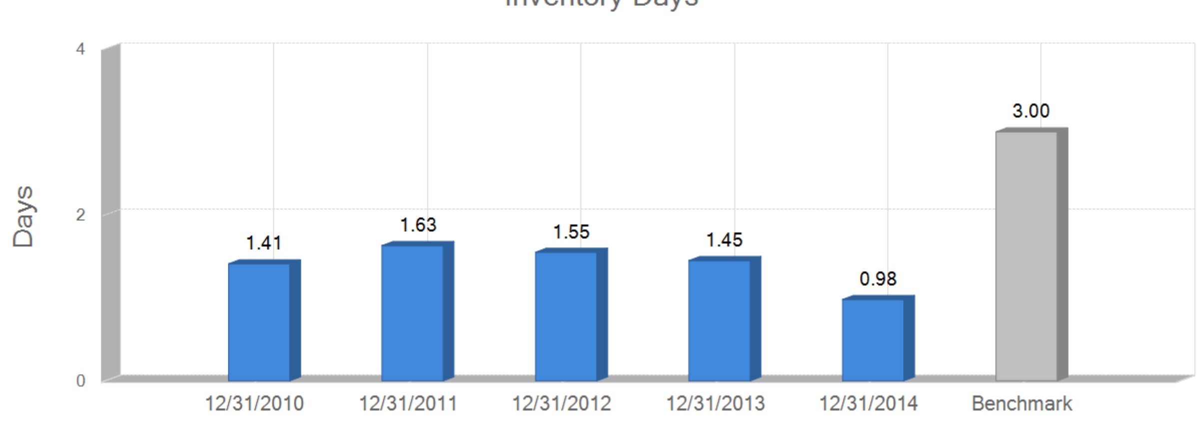
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company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

Quick Ratio



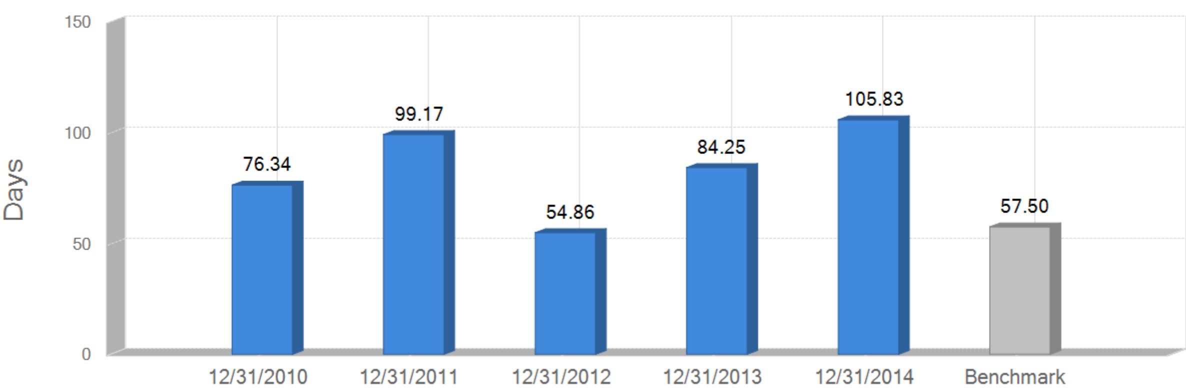
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the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

Inventory Days

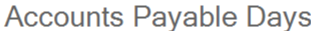


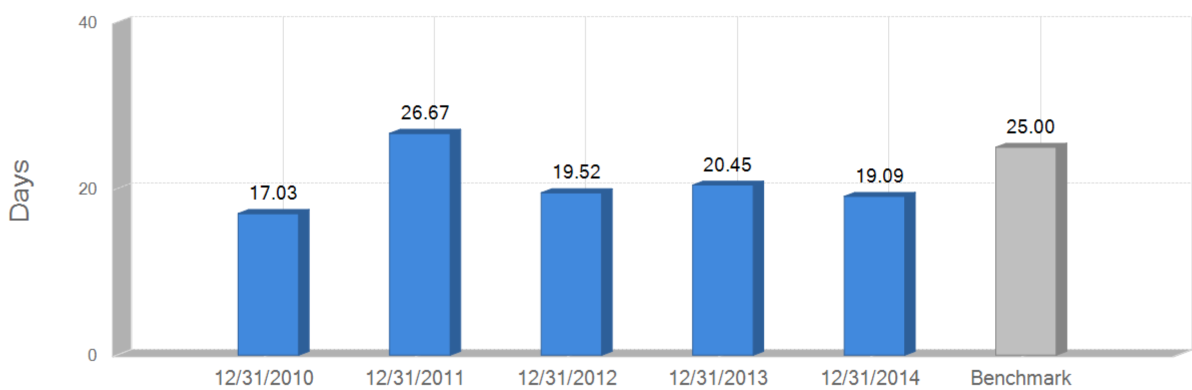
This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.

Accounts Receivable Days



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 67 out of 100

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

The company has performed quite well this period, as it has increased its sales significantly by 36.76% from last period and also managed those sales better. The company's net profits in dollars, net profit margins, gross profits in dollars, and gross margins have all increased as well. In fact, net profits and gross profits are significantly higher than they were last period. The fact that **both volume and margins (efficiency) have improved** means that the company is managing sales growth well; this is excellent. This also implies that the company may be able to keep increasing sales in the future to build in better profits and better margins. In short, the company needs to continue what it is doing at this time -- it is working.

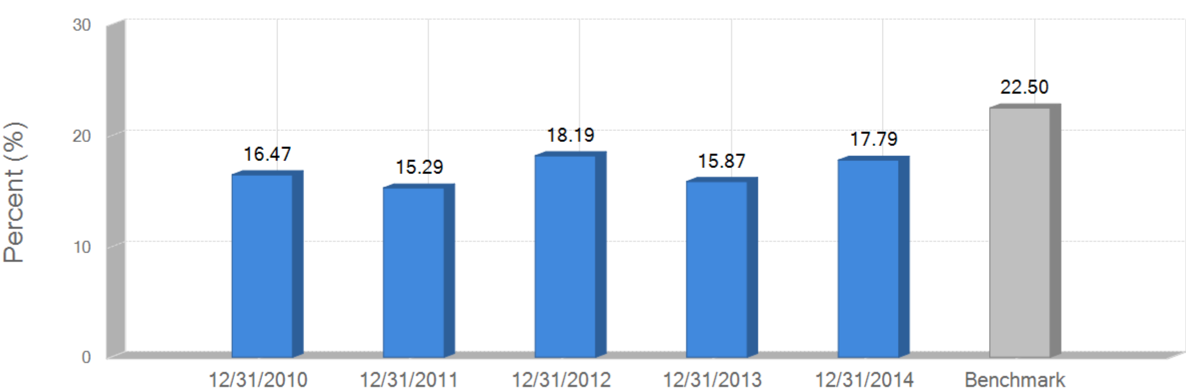
When sales volume rises and gross margins rise, either the dynamic between variable costs and prices is being managed more effectively or there are fixed costs in the cost of sales area. It is important for managers to determine which of these scenarios is the case, since it can indicate generally how much future sales increases will drive up gross profits. For example, if there are fixed costs in the cost of sales area, then gross profits will increase very quickly with sales increases, because fixed costs tend to stay flat over time.

Overall, this company is currently earning average net profits, both generally and as compared to what other firms in this industry are earning. This is depicted in the graph area of the report. If the company can continue its current profitability trends, however, it may be able to become one of the top performing firms in this industry.

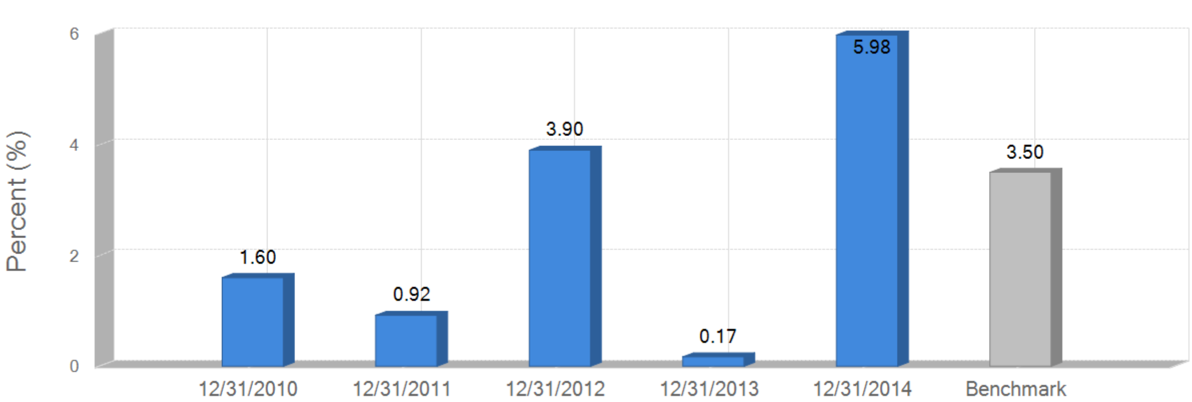
Tips For Improvement
Good profit managers make continuous and small adjustments to improve their businesses. Managers might possibly consider the following to improve profits over time:

- Make sure to properly clean your equipment after each engagement. This will help you decrease costs associated with supplies, such as paint brushes and wall paper scrapers.
- Consider investing in new technology, such as laminar airflow spray guns. The new equipment will increase productivity and efficiency, while also creating a healthier and safer work environment.
- Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.
- Work to consistently meet the needs of customers. Determine what the customer needs and whether those needs are being met. Assessing performance is often central to maintaining business.

Gross Profit Margin

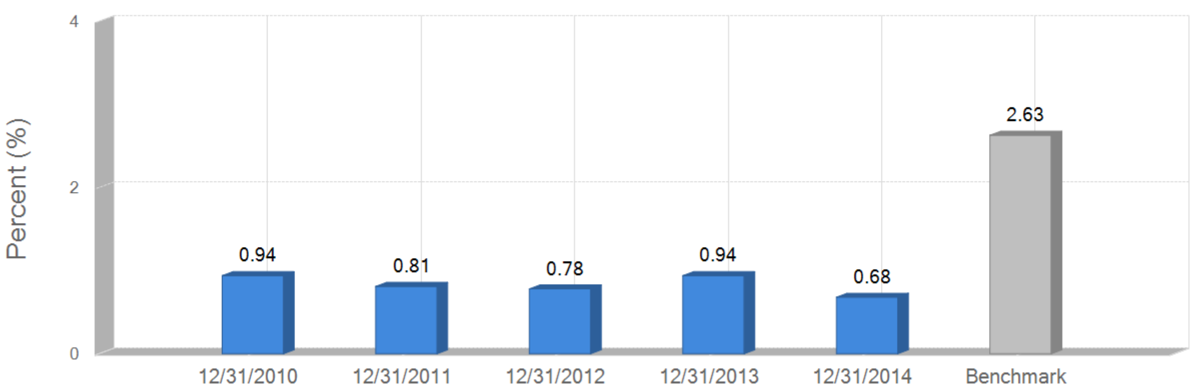


This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better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

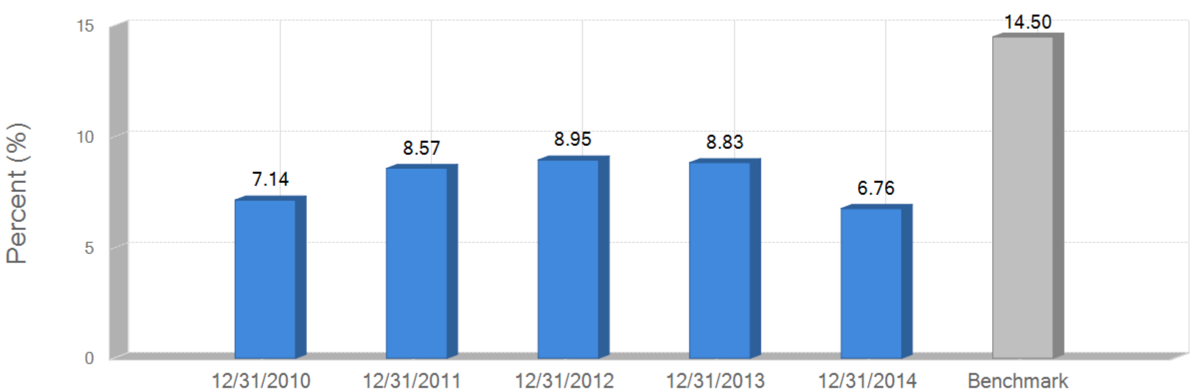


This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts.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

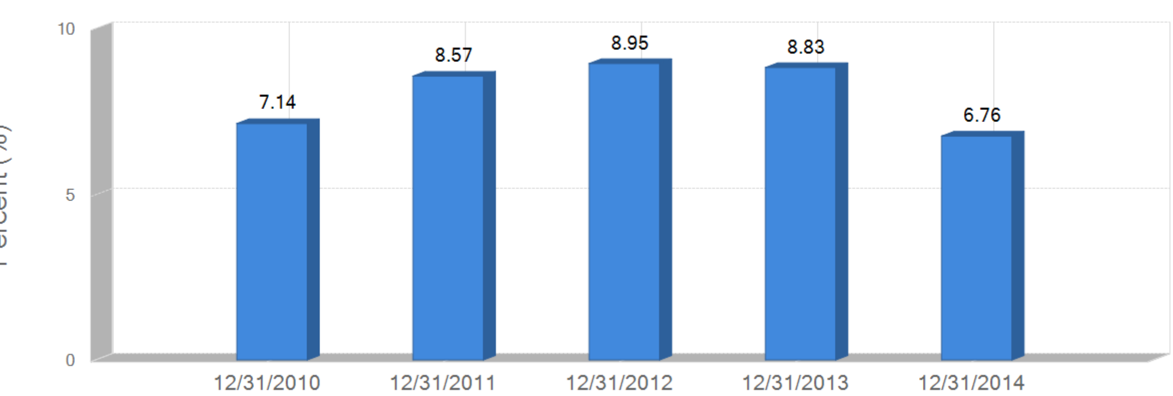
Rent to Sales



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.

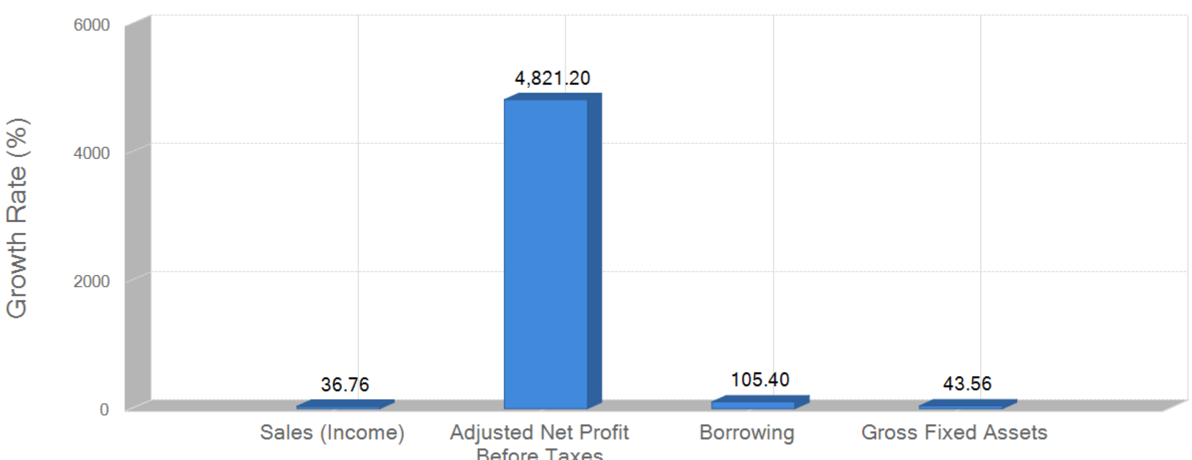


This metric shows total payroll expense for the company as a percentage of sales.

Sales 84 out of 100

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

Significant increases in sales were realized this period. It looks like the firm has also added a substantial amount of fixed assets. If these assets have helped to drive sales higher, then the company should be generally pleased that the asset base is generating more sales dollars. Ideally, this dynamic will help the company earn greater profitability in the future.



This data is based on the two most recent available periods.

Borrowing 80 out of 100

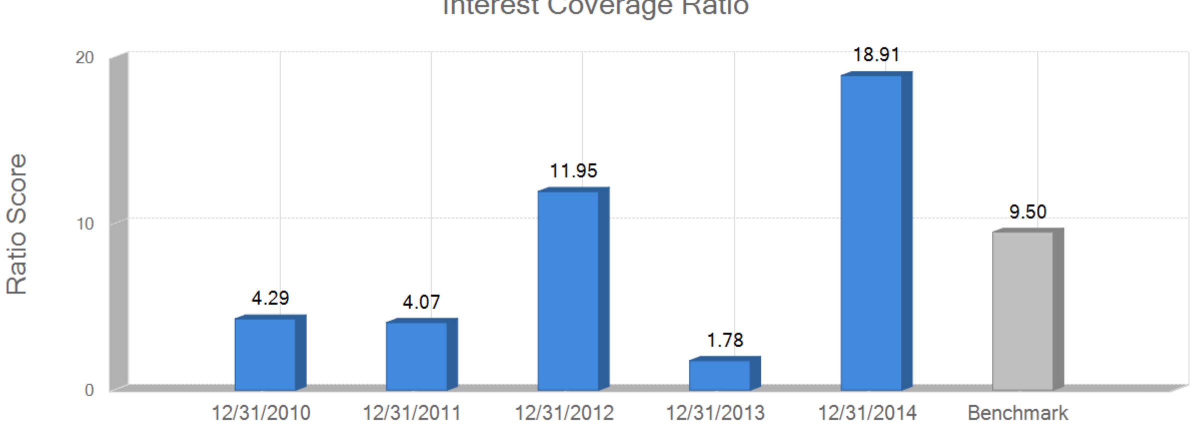
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

The ability to borrow money is something that allows a company to take advantage of a powerful resource: leverage. Leverage is using borrowed funds to improve profitability. The company did well here -- profitability improved substantially by 4,821.20% as debt increased, which is a good dynamic. In fact, profitability improved even faster than debt grew, which is very good.

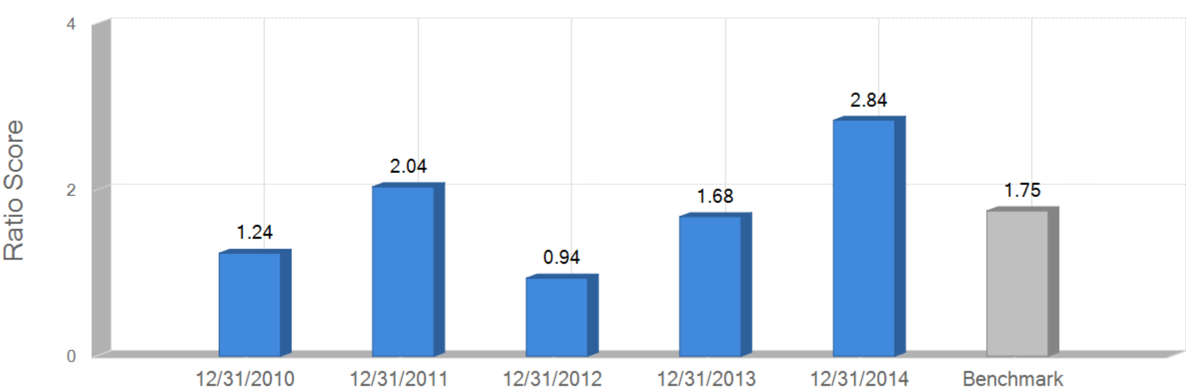
It is noteworthy that overall liquidity has fallen while debt levels have increased significantly. It might be advisable to determine whether the company incurred more short-term debt or long-term debt. Generally, it is acceptable when a reduction in overall liquidity occurs simultaneously with an increase in debt levels if fixed assets have been added, and some cash was required along with debt financing.

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 the company 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.

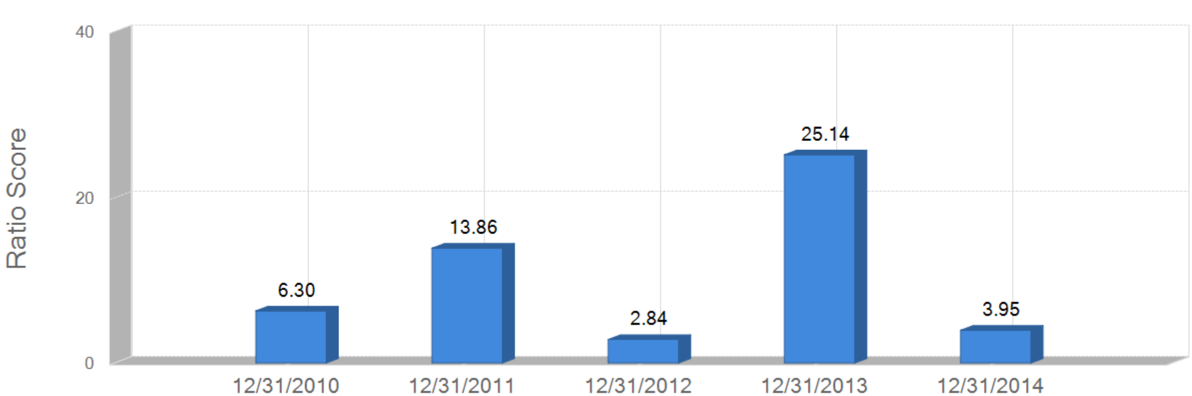
While the company has a relatively high level of debt, when compared to its total equity, it is positive to see that it seems to be able to adequately cover its interest obligations (based on earnings before interest and non-cash expenses). The interest coverage ratio is of particular importance to creditors, and is also monitored by equity investors. Typically, a company's ability to generate positive earnings using borrowed dollars will generate higher returns on equity over time.



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.



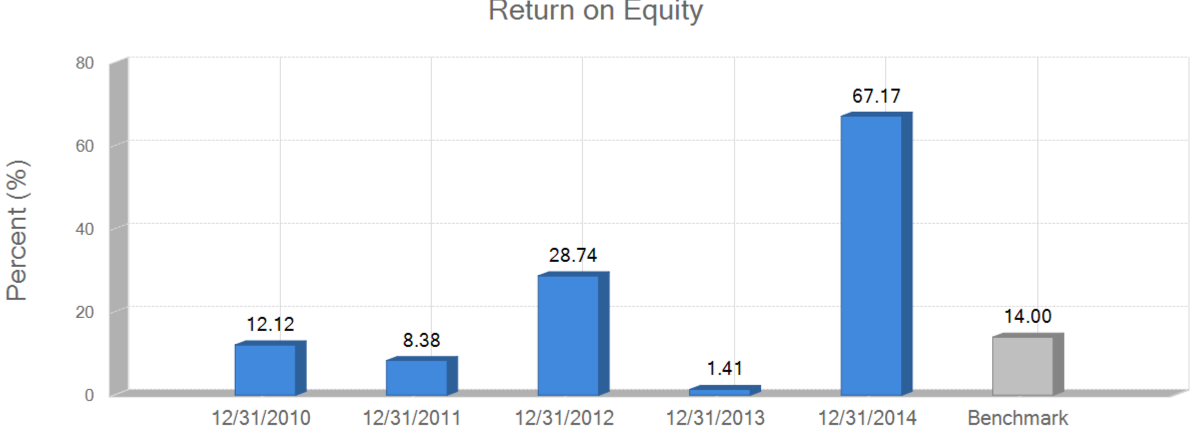
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Assets 92 out of 100

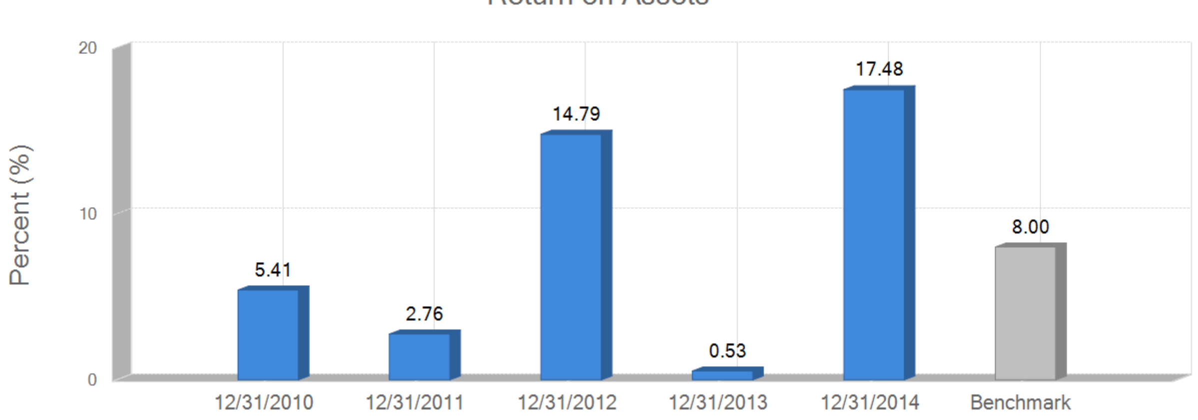
A measure of how effectively the company is utilizing its gross fixed assets.

The company performed well in this area -- significant fixed assets were added and net profitability improved by an even greater percentage. In addition, net profit margins improved, which means asset purchases did not hurt efficiency. One point to be aware of is that overall liquidity slipped. This is typical when buying fixed assets, but further asset additions could be problematic for the company if liquidity continues to fall.

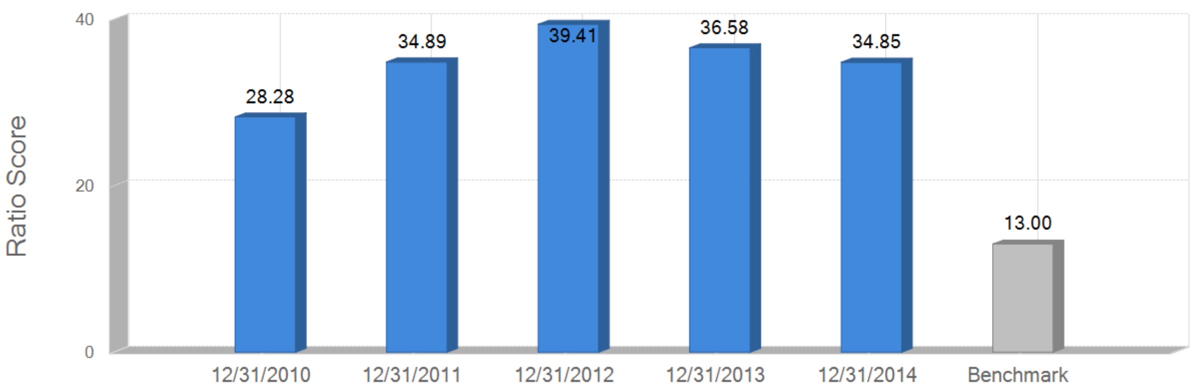
It is also positive to see above average returns on assets and equity, since these metrics are of critical importance to external and internal investors. The fixed asset ratio of the company is high as well, which means that the company is driving an adequate amount of revenue through each dollar invested in fixed 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.



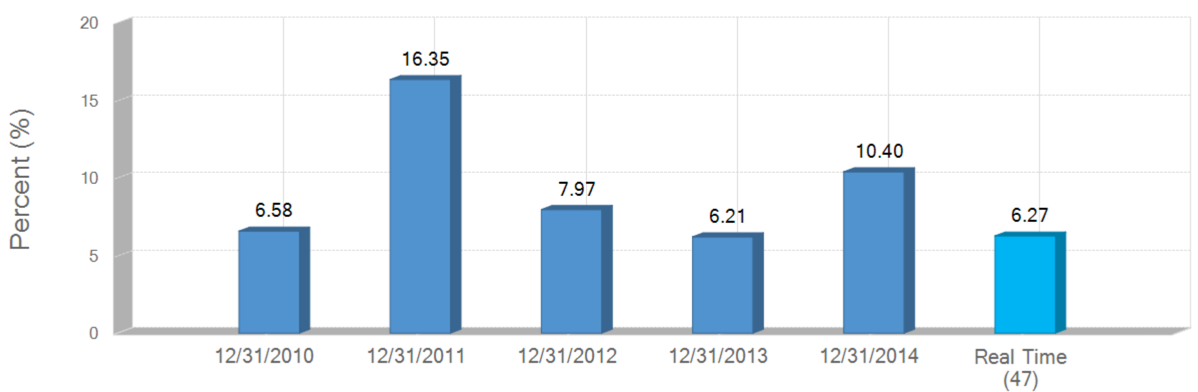
This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize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

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.

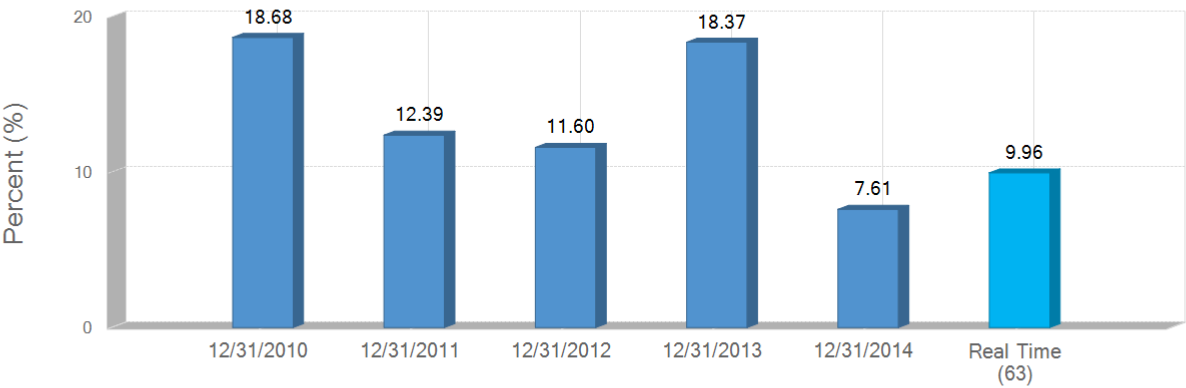
Industry-Specific Performance Ratios

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 and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve operations.



Billings in Excess of Cost to Total Assets = Billings in Excess of Costs / Total Assets



Costs and Earnings in Excess of Billings to Total Assets = Costs and Earnings in Excess of Billings / Total Assets

Raw Data

Income Statement Data	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Sales (Income)	$19,226,890	$22,286,061	$23,204,887	$19,238,409	$26,311,047
Cost of Sales (COGS)	$16,059,985	$18,877,881	$18,982,800	$16,185,738	$21,629,795
Depreciation (COGS-related)	$0	$0	$0	$0	$0
Direct Materials	$0	$0	$0	$0	$0
Direct Labor	$0	$0	$0	$0	$0
Subcontractor Expense	$0	$0	$0	$0	$0
Gross Profit	$3,166,905	$3,408,180	$4,222,087	$3,052,671	$4,681,252
Gross Profit Margin	16.47%	15.29%	18.19%	15.87%	17.79%
Depreciation	$75,909	$66,448	$53,980	$34,325	$24,365
Amortization	$0	$0	$0	$0	$0
Overhead or S,G,& A Expenses	$2,709,886	$3,070,180	$3,367,698	$4,894,146	$3,000,888
G & A Payroll Expense	$1,372,838	$1,909,708	$2,076,780	$1,697,912	$1,779,869
Rent	$180,000	$180,000	$180,000	$180,000	$180,000
Advertising	$0	$0	$0	$0	$0
Other Operating Income	$0	$0	$0	$0	$0
Other Operating Expenses	$0	$0	$0	$0	$0
Operating Profit	$381,110	$271,552	$800,409	$2,112	$1,655,999
Interest Expense	$116,670	$88,485	$87,577	$84,997	$89,271
Other Income	$43,745	$21,990	$191,936	$114,874	$7,516
Other Expenses	$0	$0	$0	$0	$0
Net Profit Before Taxes	$308,185	$205,057	$904,768	$31,989	$1,574,244
Adjusted Net Profit Before Taxes	$308,185	$205,057	$904,768	$31,989	$1,574,244
Net Profit Margin	1.60%	0.92%	3.90%	0.17%	5.98%
EBITDA	$500,764	$359,990	$1,046,325	$151,311	$1,687,880
Taxes Paid	$0	$0	$0	$0	$0
Extraordinary Gain	$0	$0	$0	$0	$0
Extraordinary Loss	$0	$0	$0	$0	$0
Net Income	$308,185	$205,057	$904,768	$31,989	$1,574,244
Balance Sheet Data	**12/31/2010**	**12/31/2011**	**12/31/2012**	**12/31/2013**	**12/31/2014**
Cash (Bank Funds)	$235,609	$167,433	$1,547,809	$178,797	$149,353
Accounts Receivable	$4,021,314	$6,054,980	$3,488,011	$4,440,535	$7,628,892
Inventory	$62,154	$84,323	$80,661	$64,310	$58,176
Other Current Assets	$1,161,699	$1,006,315	$894,037	$1,312,926	$805,371
Costs and Earnings in Excess of Billings	$1,064,427	$921,728	$709,703	$1,116,201	$685,572
Total Current Assets	$5,480,776	$7,313,051	$6,010,518	$5,996,568	$8,641,792
Gross Fixed Assets	$679,926	$638,749	$588,773	$525,949	$755,075
Accumulated Depreciation	$463,549	$513,722	$480,776	$447,792	$390,901
Net Fixed Assets	$216,377	$125,027	$107,997	$78,157	$364,174
Gross Intangible Assets	$0	$0	$0	$0	$0
Accumulated Amortization	$0	$0	$0	$0	$0
Net Intangible Assets	$0	$0	$0	$0	$0
Other Assets	$0	$0	$0	$0	$0
Total Assets	$5,697,153	$7,438,078	$6,118,515	$6,074,725	$9,005,966
Accounts Payable	$749,493	$1,379,492	$1,015,183	$906,629	$1,131,133
Short Term Debt	$363,000	$373,000	$0	$1,264,000	$1,645,000
Notes Payable / Current Portion of Long Term Debt	$0	$0	$104,872	$111,341	$275,112
Other Current Liabilities	$662,015	$1,857,884	$775,240	$558,725	$2,783,439
Billings in Excess of Costs	$374,730	$1,215,891	$487,385	$377,000	$936,713
Total Current Liabilities	$1,774,508	$3,610,376	$1,895,295	$2,840,695	$5,834,684
Notes Payable / Senior Debt	$0	$0	$0	$0	$0

Notes Payable / Subordinated Debt	$0	$0	$0	$0	$0
Other Long Term Liabilities	$1,379,760	$1,379,760	$1,074,888	$963,547	$827,722
Total Long Term Liabilities	$1,379,760	$1,379,760	$1,074,888	$963,547	$827,722
Total Liabilities	$3,154,268	$4,990,136	$2,970,183	$3,804,242	$6,662,406
Preferred Stock	$0	$0	$0	$0	$0
Common Stock	$500	$500	$500	$500	$500
Additional Paid-in Capital	$0	$0	$0	$0	$0
Other Stock / Equity	($2,999)	($2,999)	($2,999)	($2,999)	($2,999)
Ending Retained Earnings	$2,545,384	$2,450,441	$3,150,831	$2,272,982	$2,346,059
Total Equity	$2,542,885	$2,447,942	$3,148,332	$2,270,483	$2,343,560
Total Liabilities + Equity	$5,697,153	$7,438,078	$6,118,515	$6,074,725	$9,005,966

Common Size Statements

Income Statement Data	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	Industry*
Sales (Income)	100%	100%	100%	100%	100%	100%
Cost of Sales (COGS)	84%	85%	82%	84%	82%	59%
Depreciation (COGS-related)	0%	0%	0%	0%	0%	1%
Direct Materials	0%	0%	0%	0%	0%	18%
Direct Labor	0%	0%	0%	0%	0%	33%
Subcontractor Expense	0%	0%	0%	0%	0%	27%
Gross Profit	16%	15%	18%	16%	18%	41%
Depreciation	0%	0%	0%	0%	0%	1%
Amortization	0%	0%	0%	0%	0%	0%
Overhead or S,G,& A Expenses	14%	14%	15%	25%	11%	31%
G & A Payroll Expense	7%	9%	9%	9%	7%	18%
Rent	1%	1%	1%	1%	1%	2%
Advertising	0%	0%	0%	0%	0%	1%
Other Operating Income	0%	0%	0%	0%	0%	0%
Other Operating Expenses	0%	0%	0%	0%	0%	3%
Operating Profit	2%	1%	3%	0%	6%	7%
Interest Expense	1%	0%	0%	0%	0%	0%
Other Income	0%	0%	1%	1%	0%	0%
Other Expenses	0%	0%	0%	0%	0%	0%
Net Profit Before Taxes	2%	1%	4%	0%	6%	6%
Adjusted Net Profit Before Taxes	2%	1%	4%	0%	6%	6%
EBITDA	3%	2%	5%	1%	6%	8%
Taxes Paid	0%	0%	0%	0%	0%	1%
Extraordinary Gain	0%	0%	0%	0%	0%	0%
Extraordinary Loss	0%	0%	0%	0%	0%	0%
Net Income	2%	1%	4%	0%	6%	5%

Balance Sheet Data	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	Industry*
Cash (Bank Funds)	4%	2%	25%	3%	2%	14%
Accounts Receivable	71%	81%	57%	73%	85%	32%
Inventory	1%	1%	1%	1%	1%	0%
Other Current Assets	20%	14%	15%	22%	9%	6%
Costs and Earnings in Excess of Billings	19%	12%	12%	18%	8%	11%
Total Current Assets	96%	98%	98%	99%	96%	68%
Gross Fixed Assets	12%	9%	10%	9%	8%	65%
Accumulated Depreciation	8%	7%	8%	7%	4%	39%
Net Fixed Assets	4%	2%	2%	1%	4%	26%

Gross Intangible Assets	0%	0%	0%	0%	0%	0%
Accumulated Amortization	0%	0%	0%	0%	0%	0%
Net Intangible Assets	0%	0%	0%	0%	0%	0%
Other Assets	0%	0%	0%	0%	0%	6%
Total Assets	100%	100%	100%	100%	100%	100%
Accounts Payable	13%	19%	17%	15%	13%	12%
Short Term Debt	6%	5%	0%	21%	18%	1%
Notes Payable / Current Portion of Long Term Debt	0%	0%	2%	2%	3%	1%
Other Current Liabilities	12%	25%	13%	9%	31%	16%
Billings in Excess of Costs	7%	16%	8%	6%	10%	6%
Total Current Liabilities	31%	49%	31%	47%	65%	43%
Notes Payable / Senior Debt	0%	0%	0%	0%	0%	4%
Notes Payable / Subordinated Debt	0%	0%	0%	0%	0%	0%
Other Long Term Liabilities	24%	19%	18%	16%	9%	1%
Total Long Term Liabilities	24%	19%	18%	16%	9%	24%
Total Liabilities	55%	67%	49%	63%	74%	66%
Preferred Stock	0%	0%	0%	0%	0%	0%
Common Stock	0%	0%	0%	0%	0%	1%
Additional Paid-in Capital	0%	0%	0%	0%	0%	2%
Other Stock / Equity	0%	0%	0%	0%	0%	4%
Ending Retained Earnings	45%	33%	51%	37%	26%	25%
Total Equity	45%	33%	51%	37%	26%	34%
Total Liabilities + Equity	100%	100%	100%	100%	100%	100%

*The industry common size figures shown above were taken from all private company data for companies with industry code 236220 for all years in all areas in all sales ranges.

Industry Scorecard

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.48	1.50 to 2.50	-1.33%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	1.33	1.00 to 2.00	0.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Inventory Days = (Inventory / COGS) * 365	0.98 Days	1.00 to 5.00 Days	+2.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	105.83 Days	40.00 to 75.00 Days	-41.11%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Payable Days = (Accounts Payable / COGS) * 365	19.09 Days	10.00 to 40.00 Days	0.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Gross Profit Margin = Gross Profit / Sales	17.79%	15.00% to 30.00%	0.00%

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).

Financial Indicator	Current Period	Industry Range	Distance from Industry
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	5.98%	1.00% to 6.00%	0.00%

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.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Rent to Sales = Rent / Sales	0.68%	1.00% to 4.25%	+32.00%

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
G & A Payroll to Sales = G & A Payroll Expense / Sales	6.76%	9.00% to 20.00%	+24.89%

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
Total Payroll to Sales = (Direct Labor + G & A Payroll Expense) / Sales	6.76%	--	--

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

Financial Indicator	Current Period	Industry Range	Distance from Industry
Interest Coverage Ratio = EBITDA / Interest Expense	18.91	5.00 to 14.00	+35.07%

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 2.84 1.00 to 2.50 -13.60%
= Total Liabilities / Total Equity

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 3.95 -- --
= Total Liabilities / EBITDA

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

Return on Equity 67.17% 8.00% to 20.00% +235.85%
= Net Income / Total Equity

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 17.48% 6.00% to 10.00% +74.80%
= Net Income / Total Assets

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 34.85 6.00 to 20.00 +74.25%
= Sales / Gross Fixed Assets

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 ratio, 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.).