

Freedom Workshop - Industry Benchmark

Many business leaders do not like financial reports for many reasons, some express fear and others boredom. But for the sake of your business you need to be a "Toe Dipper". What is a "Toe Dipper", it is someone who tests the waters out before taking a plunge. The Freedom Workshop is designed exactly for that purpose.

Our financial tools are sophisticated, many Fortune 500 use the same tools, but we use them in a different way - we use them for benchmarking your business against others in your industry. From this benchmark we can clearly show you the areas we need to focus on to increase the value of your business.

What that means is instead of us throwing a report like this in front of you and telling you what it means - may make us look smart but sure doesn't help you a bit...

INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Last 12 Months (393)	2013 (503)	2012 (2340)	Last 5 Years (14203)	All Years (30568)
Current Ratio	2.65	2.67	2.89	2.75	2.63
Quick Ratio	1.11	1.13	1.34	1.23	1.19
Gross Profit Margin	30.33%	31.09%	28.93%	30.06%	29.22%
Net Profit Margin	8.48%	8.12%	3.98%	1.04%	1.96%
Inventory Days	268.04	272.54	305.41	325.53	302.41
Accounts Receivable Days	24.13	25.13	22.10	20.38	19.26
Accounts Payable Days	20.47	20.54	20.15	19.66	19.92
Interest Coverage Ratio	12.04	10.64	8.56	6.74	8.08
Debt-to-Equity Ratio	5.75	5.47	5.02	5.61	5.93
Debt Service Coverage Ratio	7.72	4.46	3.79	2.91	2.97
Return on Equity	65.51%	61.99%	39.67%	34.02%	35.88%
Return on Assets	21.65%	20.71%	14.10%	10.85%	11.49%
Fixed Asset Turnover	27.68	27.46	20.68	17.98	20.27
Profit per Employee	\$28,937	\$21,978	\$11,225	\$16,767	\$21,868
Growth Metric	Last 12 Months (32)	2013 (61)	2012 (1449)	Last 5 Years (7772)	All Years (15356)
Sales Growth	4.78%	6.22%	14.69%	1.10%	1.97%
Profit Growth	54.19%	24.60%	29.27%	15.89%	12.56%

We present (of course we don't throw the report in front of you - we go over the report with you highlighting areas we need to consider) a report like this one below...

First it gives you a commentary on the section on Profits & Profit Margin which is generally not over our heads. There are five other sections found in the report (Liquidity, Sales, Borrowing, Assets and Employees).

Profits & Profit Margin

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

The company has improved all of its profitability indicators this period, and has done so on relatively flat sales, which is particularly impressive. However, the company needed this period's improvements, because its net profit margin is fairly weak, despite the increases. This means that the company's net margin is not strong overall, but also below average relative to the net margins that are being earned by other companies in this industry. This is illustrated in the graph area of the report.

The company's performance in the gross profitability area is particularly impressive. Although sales have not changed much since the previous period, the company's gross profit dollars rose nicely because the company was able to improve its gross profit margin. The gross margin measures the cents of gross profit that the company earns on every dollar it gains in sales; it is a measure of how effectively the company is balancing its revenues and its costs of sales. The company is now spending less of each sales dollar on costs of sales, and has thus been able to increase gross profits with the same amount of revenue. It can be good for a company to do more with approximately the same revenue stream because this greatly helps performance over time. It also means that the company had better "line" management this period than last period.

The company should keep working to improve net profitability at this time. The company is making progress, as its net profit margin and net profit dollars have increased this period, but net profits are still weak, as was previously noted. Perhaps additional sales would help make faster progress (although this is not always the case). It is important not to see the company linger too long with low profitability. Companies need solid profits to fuel long-term growth.

Then the report gives you each of the ratios and such that prove this section on Profits & Profit Margins. These are all items bankers and financial people always hope you understand. At the bottom of each chart is a short description of what the chart is.

Gross Profit Margin



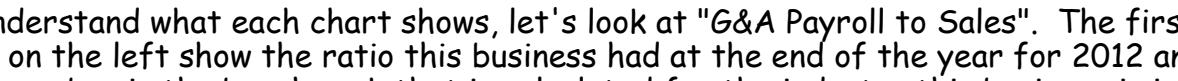
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better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

Net Profit Margin



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.

Advertising to Sales



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

Rent to Sales



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

G & A Payroll to Sales

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

To understand what each chart shows, let's look at "G&A Payroll to Sales". The first two columns on the left show the ratio this business had at the end of the year for 2012 and 2013. The gray bar is the benchmark that is calculated for the industry this business is in. The 4th bar is what companies in this industry are reporting at this time "Real Time". The last bar is what our clients are reporting (if we have any in your industry). So from this chart we would explain, "G&A Payroll to Sales looks good. You are consistent year-over-year and under the industry benchmark. I don't feel the "Real Time" numbers are anything to worry about at this time. Good job, so let's look at other areas".