
SAMPLE CO

Financial Performance Analysis

OCTOBER 6, 2018

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Purpose of this Document

This document is prepared upon the request of our client to provide a Financial Performance Analysis for “Sample Co.”. This document is for information purposes only and may not be reproduced or distributed to other persons without the author’s permission.

Financial Performance Summary

Based on the detailed analysis listed in this document, we concluded the following summary:

Liquidity:

The Company maintains the minimum cash required to meet its liabilities. The current ratio of 1.28 shows that it is managing its cash to maintain the minimum possible balance.

Leverage:

The Company is increasing the leverage by getting more loans, which in 2016 reached up to 50% of the total assets representing 3.3 times the equity. The company’s ability to meet the interest obligations is reduced and now the EBIT (Earnings before Interest and Tax) is 7.34 times the interest expense.

Activity:

The Company collects the accounts receivable in 38 days and acquires inventory to sell for a period of 35 days; and there is a marked improvement in the inventory within days compared to the previous years. The company then pays its suppliers within 180 days. This type of management resulted in having negative CCC (Cash Conversion Cycle) to -106 days, which means the company collects the money and profit before paying any of its obligations.

The working capital is increasing in a percentage more than the revenue. Currently the average working capital turnover to revenue is 11 times.

Profitability:

The Company showed an improvement in most of the financial ratios, such as gross profit, profit margin and ROA. The company is relying on leverage and loans to increase the shareholders’ equity and reach to 54%. Also, the OCF (Operating Cash Flow Ratio) dropped to 54%.

Data Collection Method

Audited Financial Statements were provided for the years 2014, 2015 and 2016 based on the GAAP accounting basis (US).

Company information

Name of the company: Sample Co
CR OR TR number: License number 123 issued by xxx authorities
Address: Building name, street name, city and country

Financial Statements

Amounts expressed in Millions USD

Income Statement

	2016	%	2015	%	2014	%
Revenue	62,799	100%	63,056	100%	66,683	100%
Cost of Goods Sold	28,209	45%	28,731	46%	31,238	47%
Gross Profit	34,590	55%	34,325	54%	35,445	53%
Sales General & Administration Expenses	24,735	39%	25,897	41%	25,772	39%
Other Income or Expenses	60	0%	10	0%	40	0%
EBIDTA	9,915	16%	8,438	13%	9,713	15%
Depreciation & Amortization	70	0%	75	0%	92	0%
EBIT	9,845	16%	8,363	13%	9,621	14%
Interest Expenses	1,342	2%	970	2%	909	1%
Income Before Tax	8,503	14%	7,393	12%	8,712	13%
Income Tax Expense	2,174	3%	1,941	3%	2,199	3%
Net Income	6,329	10%	5,452	9%	6,513	10%

Balance Sheet

	2016	%	2015	%	2014	%
Cash & Cash Equivalent	9,158	12%	9,096	13%	6,134	9%
Accounts Receivable	6,694	9%	6,437	9%	6,651	9%
Inventory	2,723	4%	2,720	4%	3,143	4%
Other Current Assets	8,514	11%	4,778	7%	4,735	7%
Total Current Assets	27,089	37%	23,031	33%	20,663	29%
Gross PP&E (Fixed Assets)	44,454	60%	43,575	63%	46,297	66%
Accumulated Depreciation	-	0%	-	0%	-	0%
Net PP&E (Fixed Assets)	44,454	60%	43,575	63%	46,297	66%
Other Noncurrent Assets	2,586	3%	3,061	4%	3,549	5%
Total Assets	74,129	100%	69,667	100%	70,509	100%
Accounts Payable	14,243	19%	13,507	19%	13,016	18%
Current Portion of Long-Term Debt	6,892	9%	4,071	6%	5,076	7%
Accrued Expenses	-	0%	-	0%	-	0%
Income Tax and Other Current Liabilities	-	0%	-	0%	-	0%
Total Current Liabilities	21,135	29%	17,578	25%	18,092	26%
Deferred Income Taxes and Other	11,742	16%	10,846	16%	11,048	16%
Long-Term Debt	30,053	41%	29,213	42%	23,821	34%
Total Long Term Liabilities	41,795	56%	40,059	58%	34,869	49%
Total Liabilities	62,930	85%	57,637	83%	52,961	75%
Paid-In Capital	3,965	5%	3,955	6%	4,000	6%
Retained Earnings	38,599	52%	37,153	53%	38,423	54%
Reserves	-	0%	-	0%	-	0%
Other Equity Accounts	(31,365)	-42%	(29,078)	-42%	(24,875)	-35%
Shareholders' Equity	11,199	15%	12,030	17%	17,548	25%
Total Liabilities and Shareholders Equity	74,129	100%	69,667	100%	70,509	100%

Cash Flow Statement

	2016	%	2015	%	2014	%
Cash Flow From Operating Activities	10,404	100%	10,580	100%	10,506	100%
Cash Flow From Investing Activities	(7,148)	-69%	(3,569)	-34%	(4,937)	-47%
Cash Flow From Financing Activities	(3,194)	-31%	(4,049)	-38%	(8,810)	-84%
	62	1%	2,962	28%	(3,241)	-31%

Financial Statements Variance to Previous Year

Amounts expressed in Millions USD

Income Statement Variance

	2016 to 2015	%	2015 to 2014	%
Revenue	(257)	0%	(3,627)	-5%
Cost of Goods Sold	(522)	-2%	(2,507)	-8%
Gross Profit	265	1%	(1,120)	-3%
Sales General & Administration Expenses	(1,162)	-4%	125	0%
Other Income or Expenses	50	500%	(30)	-75%
EBIDTA	1,477	18%	(1,275)	-13%
Depreciation & Amortization	(5)	-7%	(17)	-18%
EBIT	1,482	18%	(1,258)	-13%
Interest Expenses	372	38%	61	7%
Income Before Tax	1,110	15%	(1,319)	-15%
Income Tax Expense	233	12%	(258)	-12%
Net Income	877	16%	(1,061)	-16%

Balance Sheet Variance

	2016 to 2015	%	2015 to 2014	%
Cash & Cash Equivalent	62	1%	2,962	48%
Accounts Receivable	257	4%	(214)	-3%
Inventory	3	0%	(423)	-13%
Other Current Assets	3,736	78%	43	1%
Total Current Assets	4,058	18%	2,368	11%
Gross PP&E (Fixed Assets)	879	2%	(2,722)	-6%
Accumulated Depreciation	-	0%	-	0%
Net PP&E (Fixed Assets)	879	2%	(2,722)	-6%
Other Noncurrent Assets	(475)	-16%	(488)	-14%
Total Assets	4,462	6%	(842)	-1%
Accounts Payable	736	5%	491	4%
Current Portion of Long-Term Debt	2,821	69%	(1,005)	-20%
Accrued Expenses	-	0%	-	0%
Income Tax and Other Current Liabilities	-	0%	-	0%
Total Current Liabilities	3,557	20%	(514)	-3%
Deferred Income Taxes and Other	896	8%	(202)	-2%
Long-Term Debt	840	3%	5,392	23%
Total Long Term Liabilities	1,736	4%	5,190	15%
Total Liabilities	5,293	9%	4,676	9%
Paid-In Capital	10	0%	(45)	-1%
Retained Earnings	1,446	4%	(1,270)	-3%
Reserves	-	0%	-	0%
Other Equity Accounts	(2,287)	8%	(4,203)	17%
Shareholders' Equity	(831)	-7%	(5,518)	-31%
Total Liabilities and Shareholders Equity	4,462	6%	(842)	-1%

Cash Flow Statement Variance

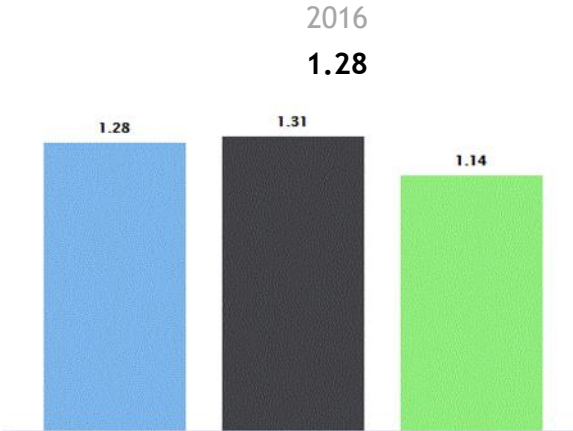
	2016 to 2015	%	2015 to 2014	%
Cash Flow From Operating Activities	(176)	-2%	74	1%
Cash Flow From Investing Activities	(3,579)	100%	1,368	-28%
Cash Flow From Financing Activities	855	-21%	4,761	-54%
	(2,900)	-98%	6,203	-191%

Detailed Analysis

Below is a detailed financial ratios analysis along with definitions of each ratio:

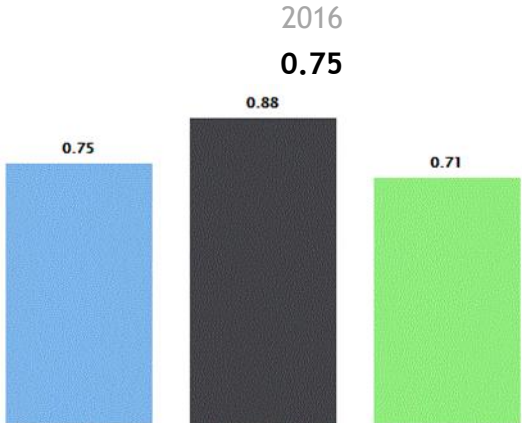
Liquidity Ratios

Current Ratio



Definition:
The Current Ratio measures how much of the total current assets are financed by current liabilities. It shows whether or not a firm has enough resources to pay its short-term liabilities.

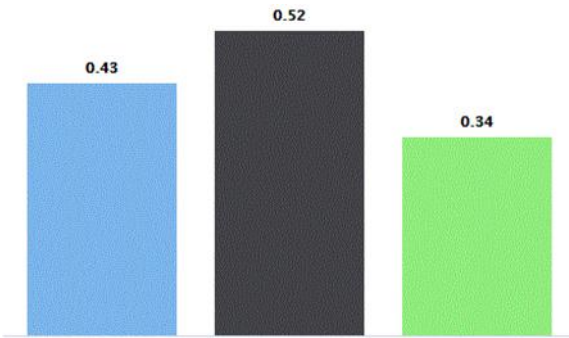
Quick Ratio



Definition:
The Quick Ratio is an indicator of a company's short-term liquidity. It measures how well the current liabilities are covered by liquid assets. For this reason, the ratio excludes inventories from current assets.

Cash Ratio

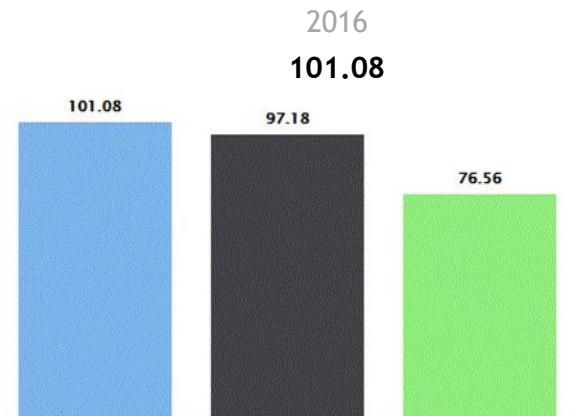
Year	Cash Ratio
2014	0.34
2015	0.52
2016	0.43



Definition:

The Cash Ratio is the most exacting of the liquidity ratios, excluding the accounts receivable as well as inventories and other current assets. More than the current ratio or acid-test ratio, it assesses an entity's ability to stay solvent in the case of an emergency.

Defensive Interval Ratio

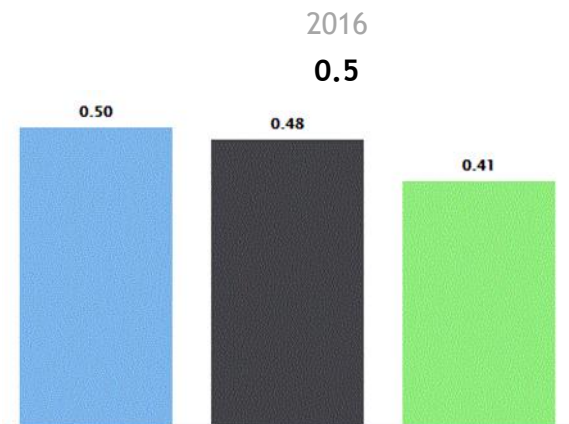


Definition:

The Defensive Interval Ratio is a liquidity ratio that measures the number of days for which the company's current quick assets can finance its daily operating cash expenditures assuming it is not expected to receive any cash inflows during the period.

Leverage Ratios

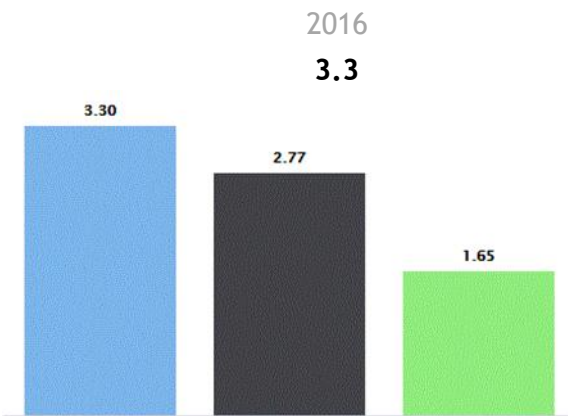
Debt to total assets



Definition:

The Leverage Ratio, also known as the Total Debt Ratio or Debt Ratio, shows the percentage of total assets that are financed by debt.

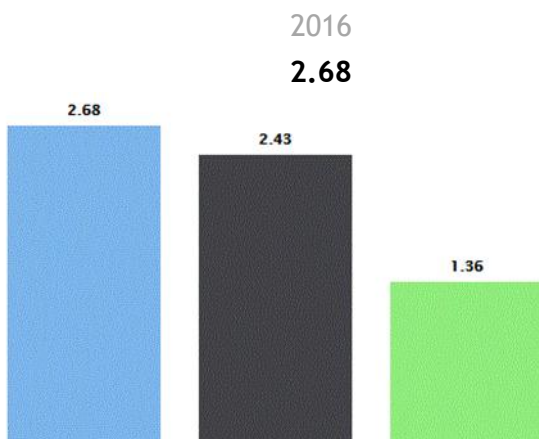
Debt to equity (D/E)



Definition:

This ratio shows the extent to which the company is financing its assets through debt rather than equity.

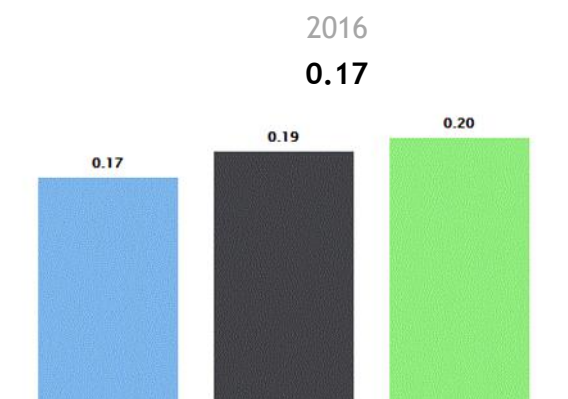
Long term debt to equity



Definition:

This ratio indicates how much long-term debt a company is using to finance its assets relative to the amount of value represented in the shareholders' equity.

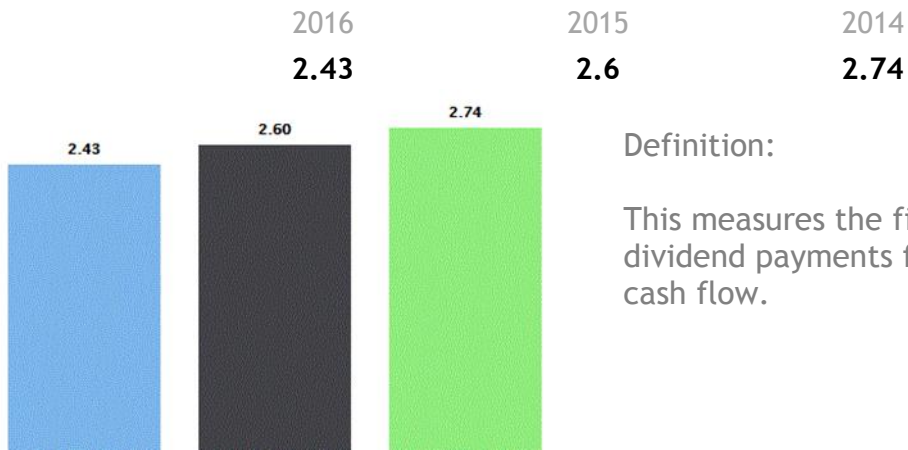
Cash Debt Coverage (CDCR)



Definition:

The Cash Debt Coverage Ratio shows how much of the company's total liabilities can be covered (paid) with an operating cash flow.

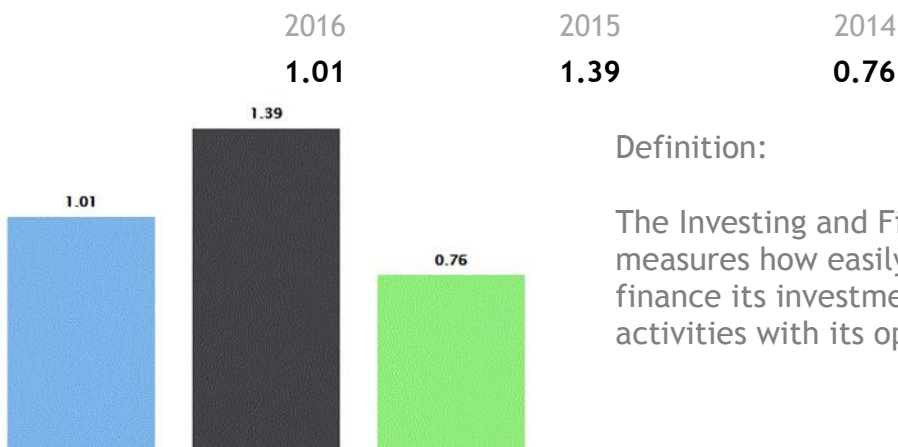
CFO to dividend



Definition:

This measures the firm's ability to make dividend payments from its operating cash flow.

Investing and financing

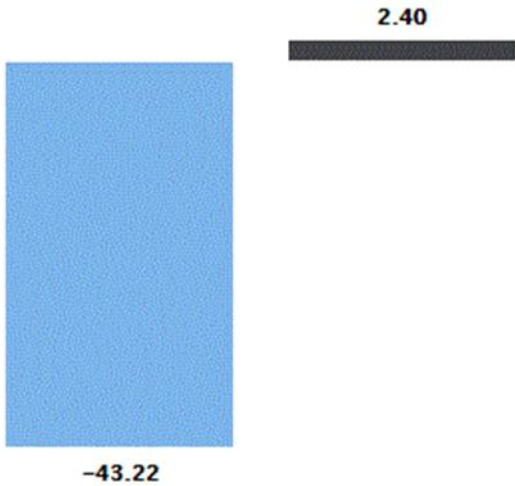


Definition:

The Investing and Financing Ratio measures how easily a company can finance its investment and finance activities with its operating cash flow.

Degree of operating leverage (DOL)

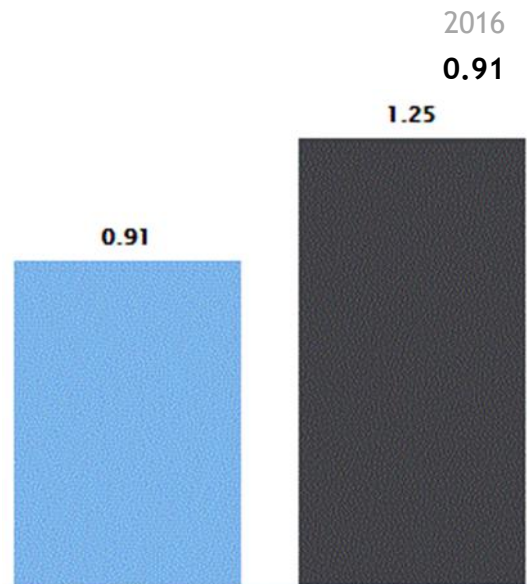
Year	DOL
2015	2.4
2016	-43.22



Definition:

A Degree of Operating Leverage (DOL) is a type of leverage ratio summarizing the effect a particular amount of operating leverage has on a company's earnings before interest and taxes (EBIT). An operating leverage involves using a large proportion of fixed costs to variable costs in the operations of the firm. The higher the degree of operating leverage, the more volatile the EBIT figure will be in relation to a given change in sales while all other things remain the same.

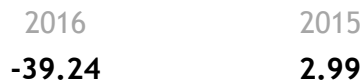
Degree of financial leverage (DFL)

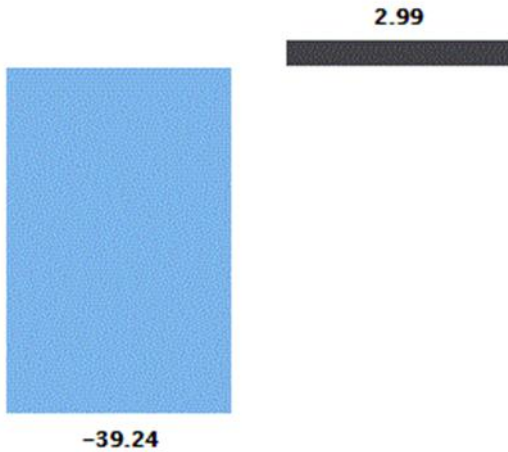


Definition:

This ratio measures the sensitivity of Net Income to the changes in EBIT as a result of changes in organization debt. Also, the Degree of Financial Leverage (DFL) measures the percentage change in EPS for a unit change in earnings before interest and taxes (EBIT).

Degree of total leverage (DTL)

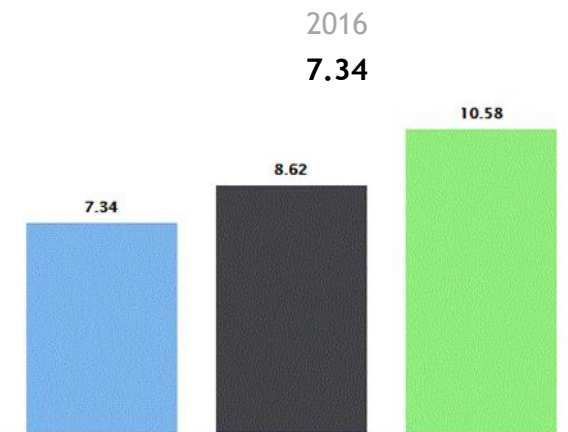




Definition:

A Degree of Total Leverage (DTL) is a leverage ratio that summarizes the combined effect of the degree of operating leverage (DOL) and the degree of financial leverage has on the earnings per share (EPS) or Net Income, given a particular change in sales. This ratio can be used to help determine the most optimal level of financial and operating leverage to use in any firm.

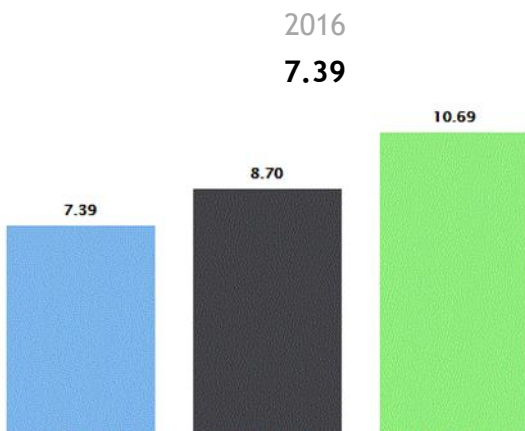
Interest Coverage



Definition:

This ratio, also known as Times Interest Earned Ratio, measures the ability of the operating income of the company to cover its interest expense.

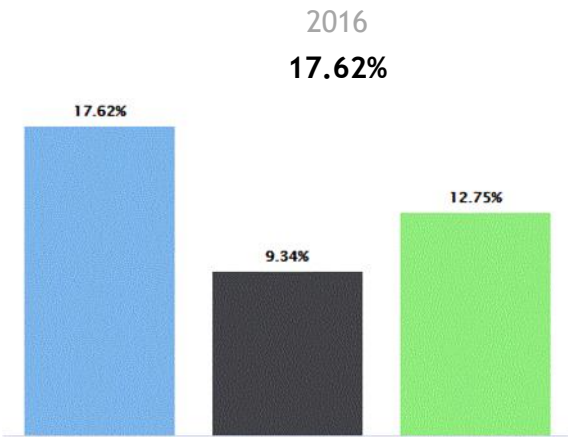
Cash Coverage



Definition:

This ratio measures the coverage of cash generated during the period to interest expense.

Sustainable growth rate (SGR)

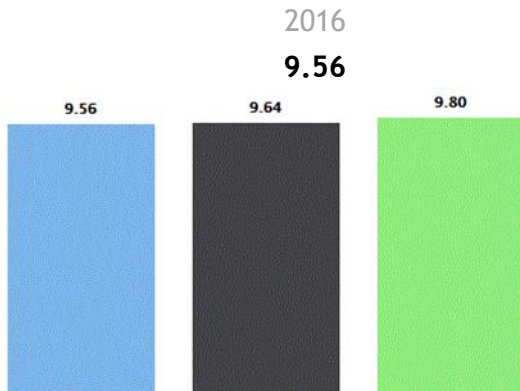


Definition:

This ratio reflects the company's maximum growth rate in sales using internal financial resources without having to increase debt or issue new equity.

Activity Ratios

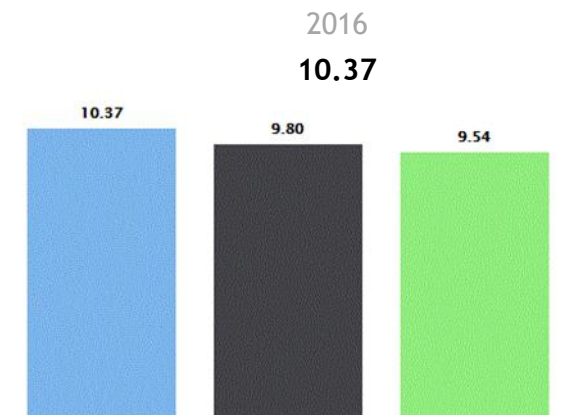
Average accounts receivable turnover



Definition:

It measures how efficiently credit sales are by showing the value of collected accounts receivable per period (usually one year). It shows the effectiveness in extending credit and in collecting debts with that credit.

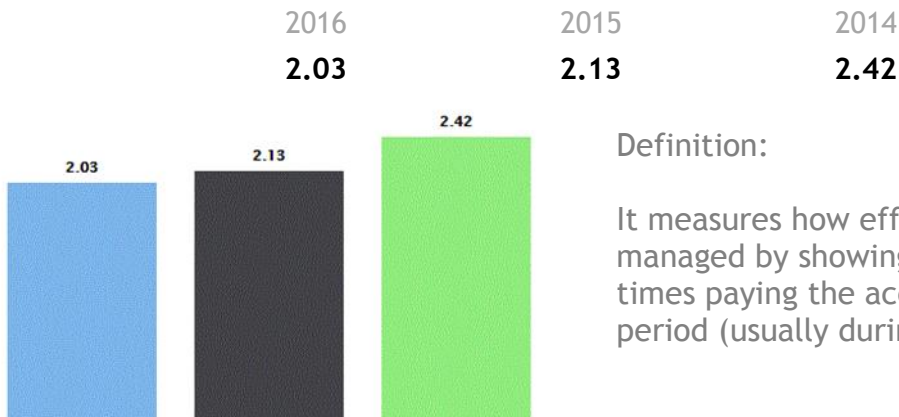
Average inventory turnover



Definition:

It measures how efficiently the inventory is managed by showing the number of times the inventory is sold per period (usually during one year).

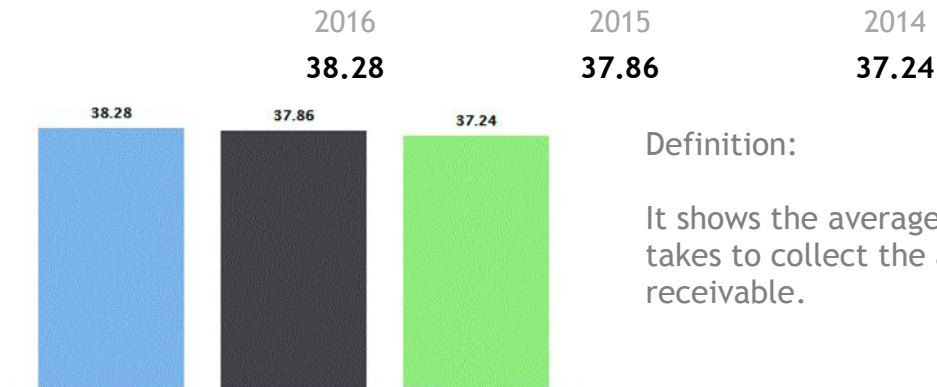
Average accounts payable turnover



Definition:

It measures how efficiently payables are managed by showing the number of times paying the accounts payables per period (usually during one year).

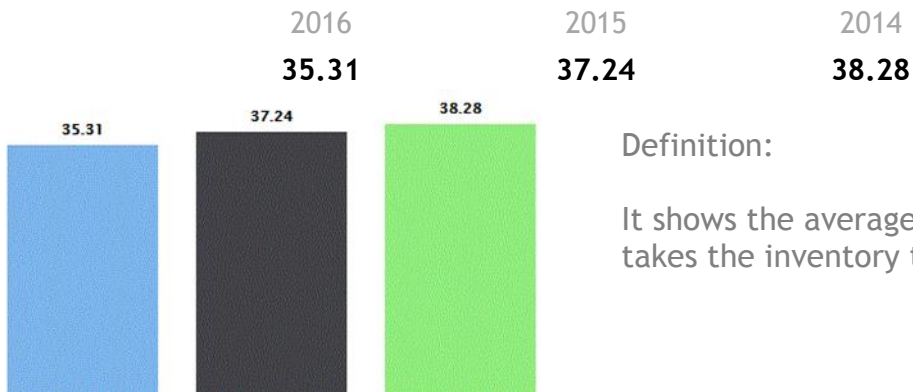
Days' sales outstanding (DSO)



Definition:

It shows the average number of days it takes to collect the accounts receivable.

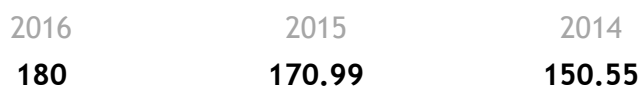
Days' inventory outstanding (DIO)

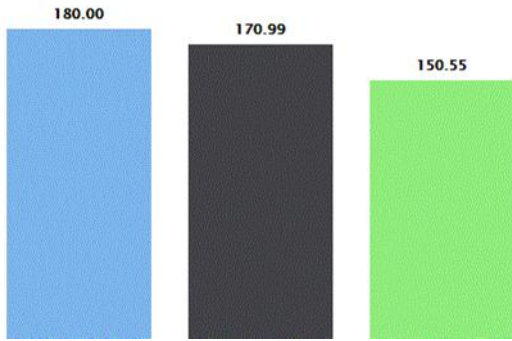


Definition:

It shows the average number of days it takes the inventory to be sold.

Days' payables outstanding (DPO)

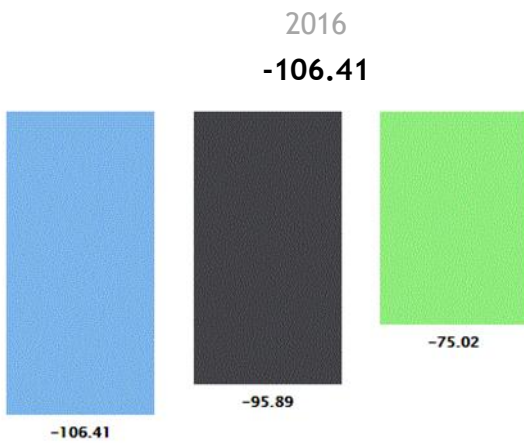




Definition:

It shows the average number of days it takes to pay the accounts payable.

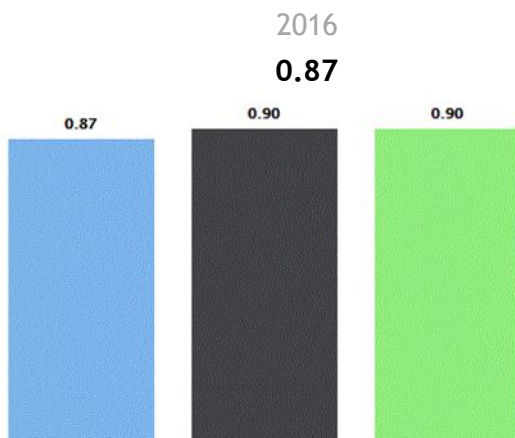
Cash conversion cycle (CCC)



Definition:

It shows the number of days it takes to complete the cash cycle by adding the number of days to sell inventory to the number of days to collect the receivables and subtract the number of days to pay the payables.

Average assets turnover

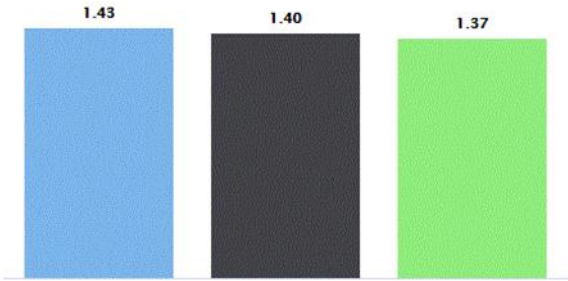


Definition:

It is an indication of the efficient use of assets by showing the revenue generated by the use of assets.

Average fixed assets turnover

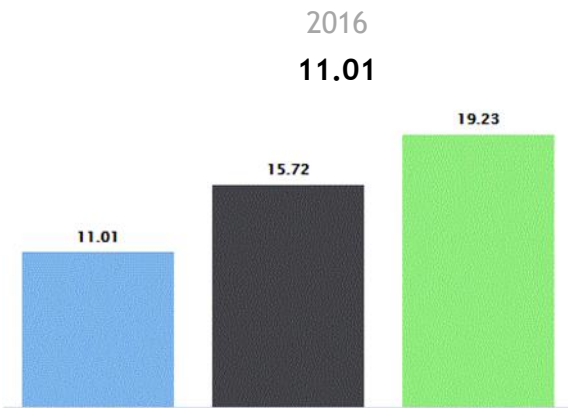




Definition:

It is more common in manufacturing to measure the efficient use of fixed assets to generate revenue.

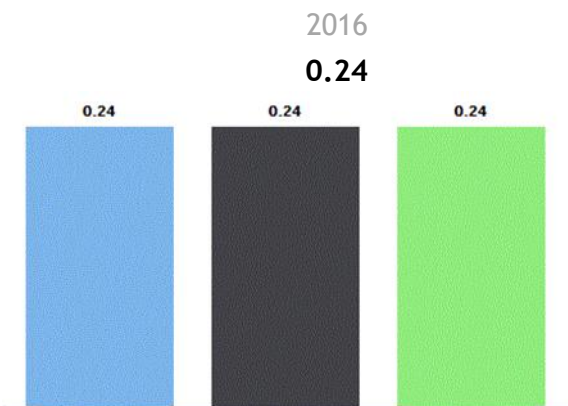
Average working capital turnover



Definition:

The working capital turnover is a measurement that compares the depletion of working capital to the generation of sales over a given period. The ratio shows how effectively a company is using its working capital to generate sales.

Revenue Per Employee

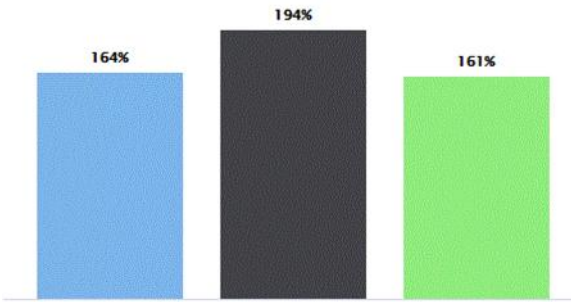


Definition:

This indicator measures the amount of dollar sales or revenue generated per employee. A higher sales-per-employee ratio indicates that the company can operate on low overhead costs, and therefore can do more with fewer employees, which often translates into healthy profits.

Cash Flow from Operations to Net Income

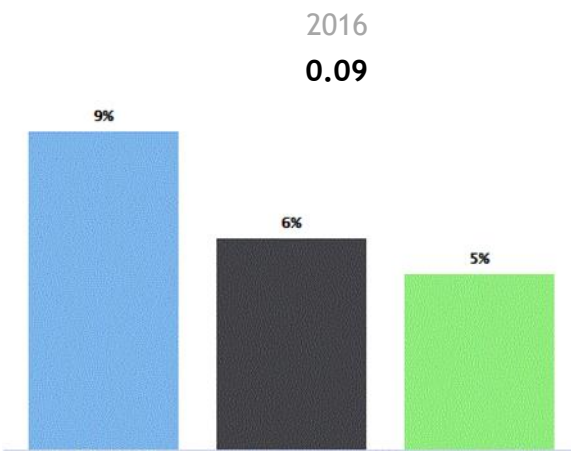




Definition:

This ratio shows the ability of operations to generate cash out of the net profit declared.

Average working capital to sales

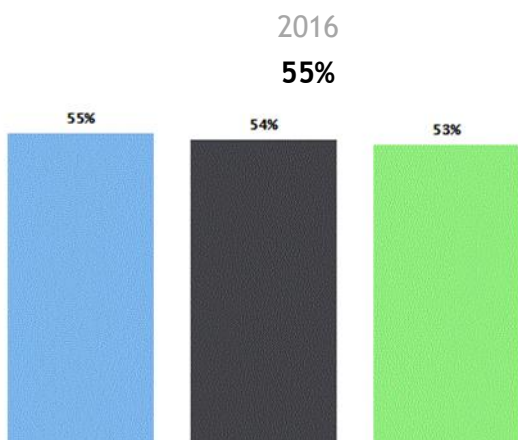


Definition:

It shows how many sales are funded by working capital. At a certain level it indicates the firm's ability to fund sales without incurring additional debt.

Profitability Ratios

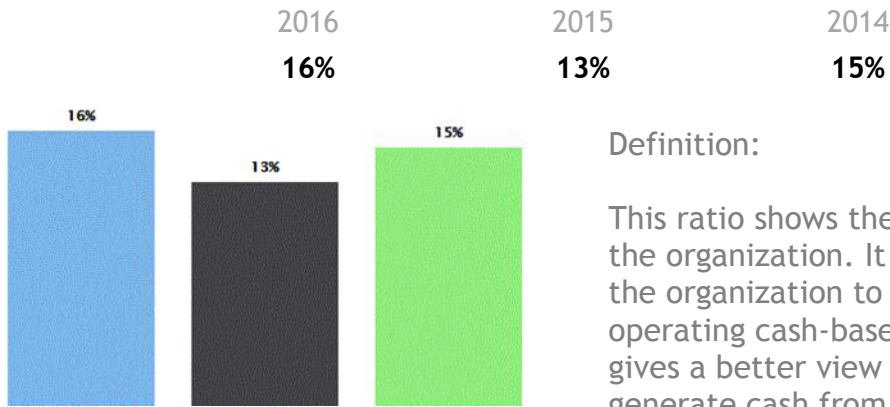
Gross margin



Definition:

This ratio shows how well the company is controlling its Cost Of Goods Sold (COGS) and pricing to generate revenue.

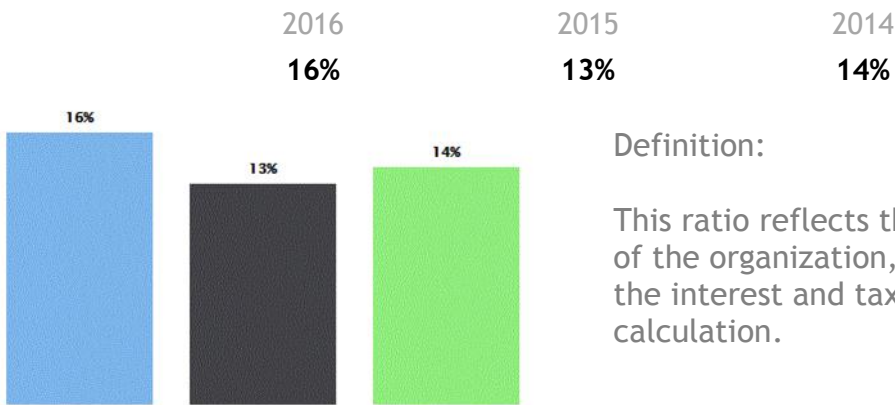
EBITDA margin



Definition:

This ratio shows the core profitability of the organization. It shows the ability of the organization to manage its operating cash-based expenses and gives a better view for the ability to generate cash from operations.

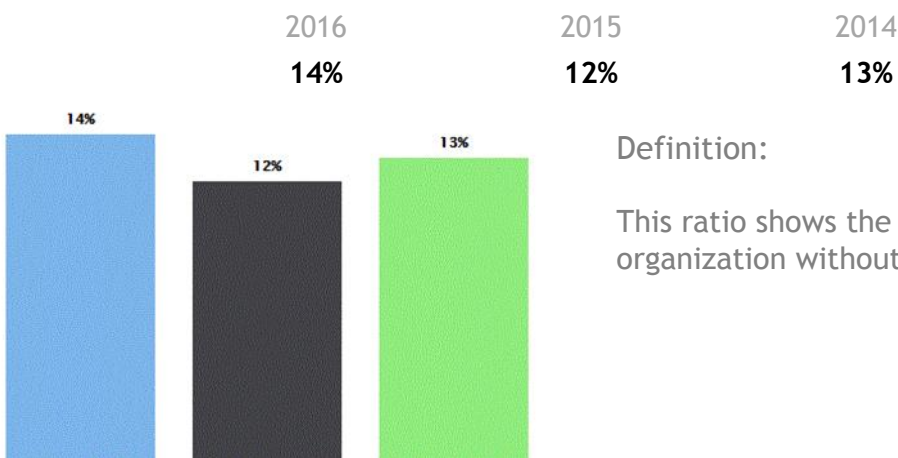
EBIT margin



Definition:

This ratio reflects the operating profit of the organization, because it excludes the interest and tax from the calculation.

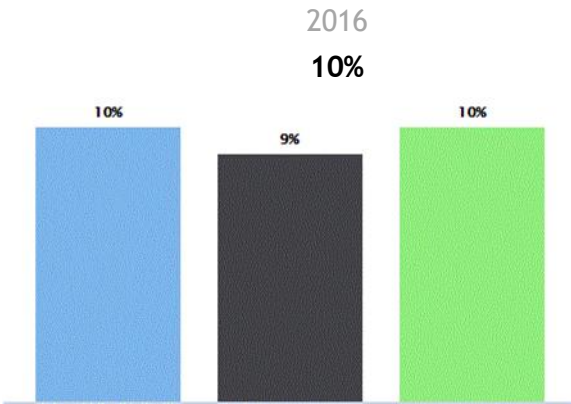
Pretax profit margin



Definition:

This ratio shows the profitability of the organization without the effect of tax.

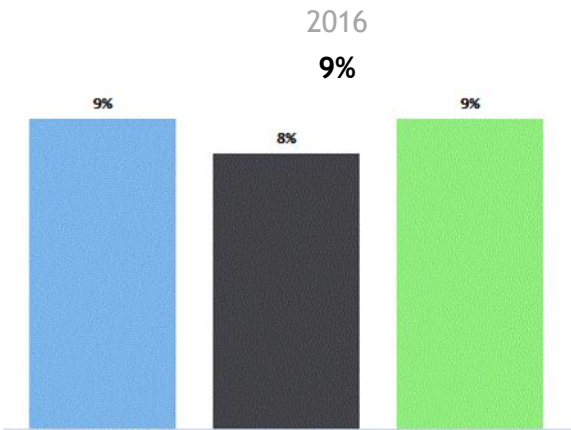
Profit margin



Definition:

This ratio shows the profit the organization makes for each one currency unit of revenue.

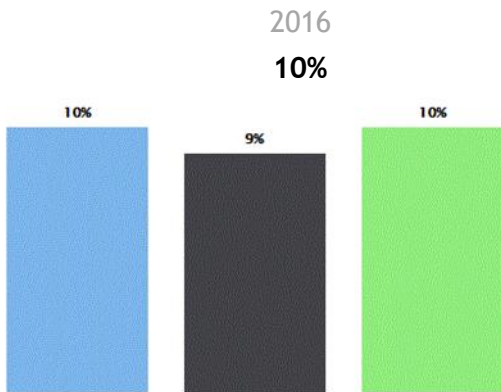
Return on average assets (ROA)



Definition:

This ratio's main use is to compare between performances of operations because it measures the efficiency of assets utilization and deployment to generate profit.

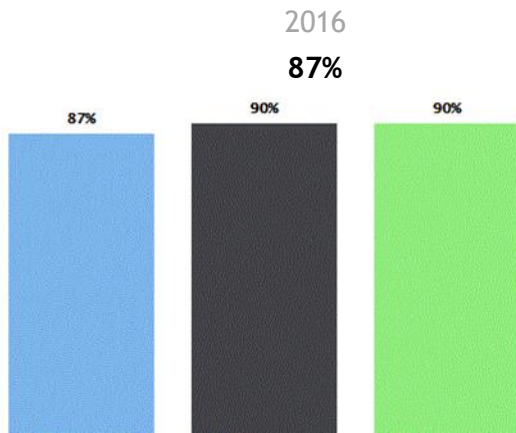
Operating efficiency



Definition:

This shows the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while retaining profits.

Assets efficiency

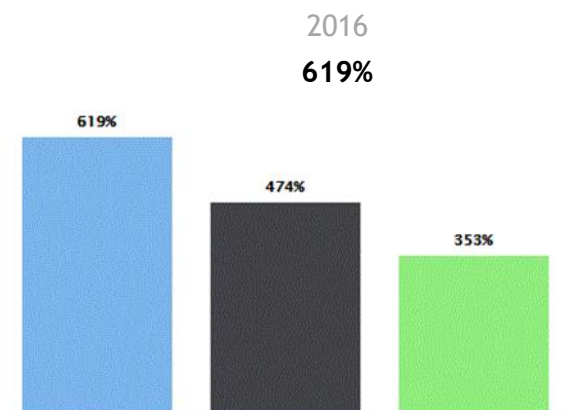


2015 **90%** 2014 **90%**

Definition:

It is the average asset turnover ratio and can often be used as an indicator of the efficiency with which a company is deploying its assets in generating revenue.

Financial leverage

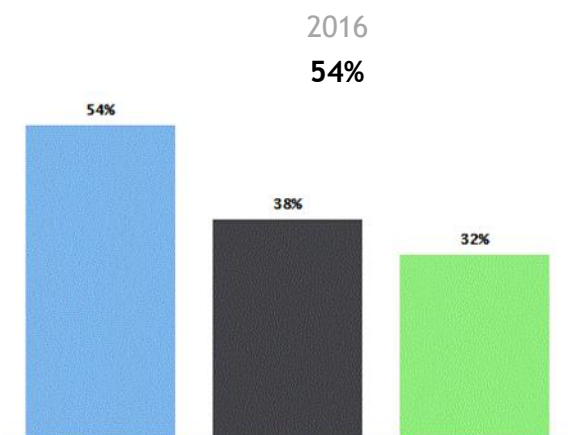


2015 **474%** 2014 **353%**

Definition:

Financial leverage refers to the use of debt to acquire additional assets. Financial leverage is also known as trading on equity.

Return on average equity (ROE)

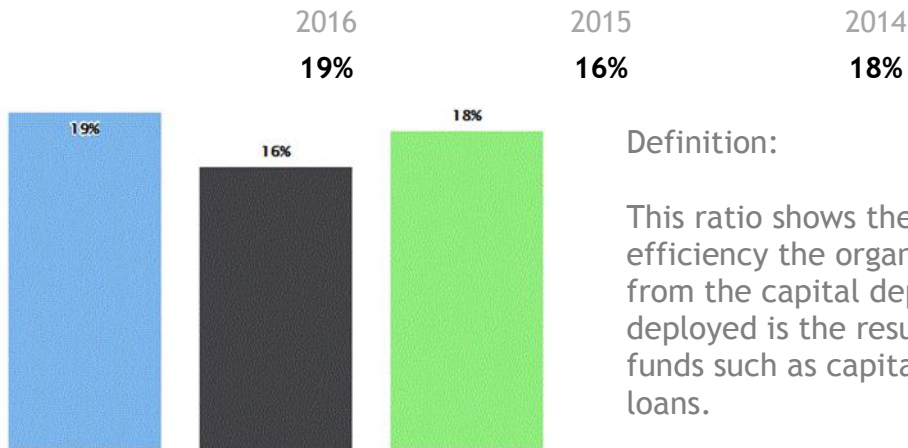


2015 **38%** 2014 **32%**

Definition:

This ratio shows the efficiency of the organization generating profit the shareholders are receiving from their investments.

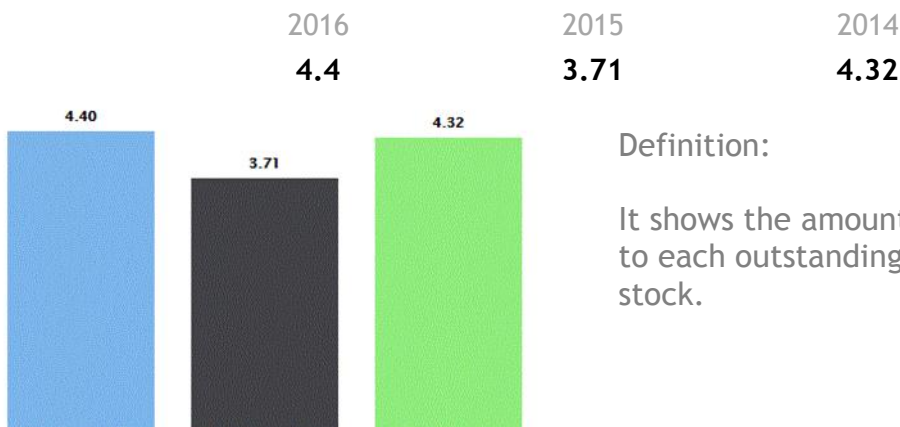
Return on capital employed (ROCE)



Definition:

This ratio shows the profitability and efficiency the organization achieves from the capital deployed. The capital deployed is the result of the long-term funds such as capital and long-term loans.

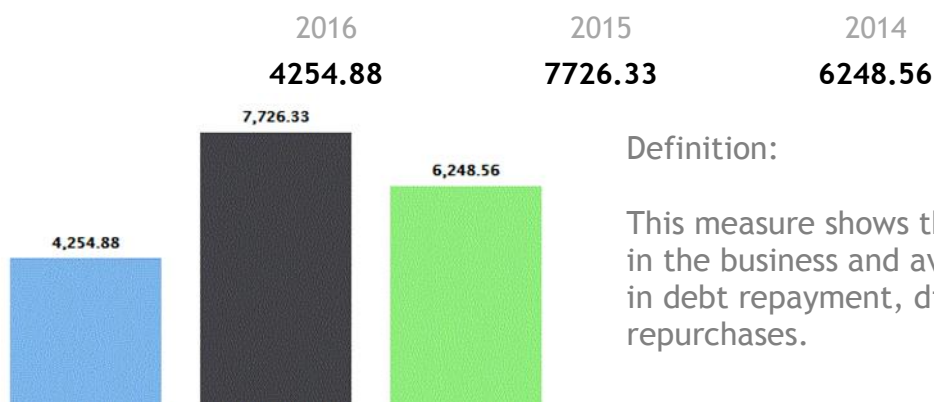
Earnings per share (EPS)



Definition:

It shows the amount of profit available to each outstanding share of common stock.

Free cash flow (FCF)

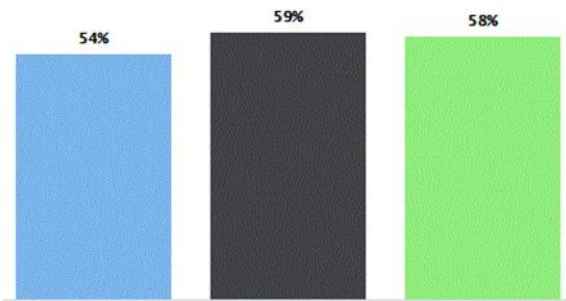


Definition:

This measure shows the cash generated in the business and available to be used in debt repayment, dividends and stock repurchases.

Operating cash flow ratio (OCF)

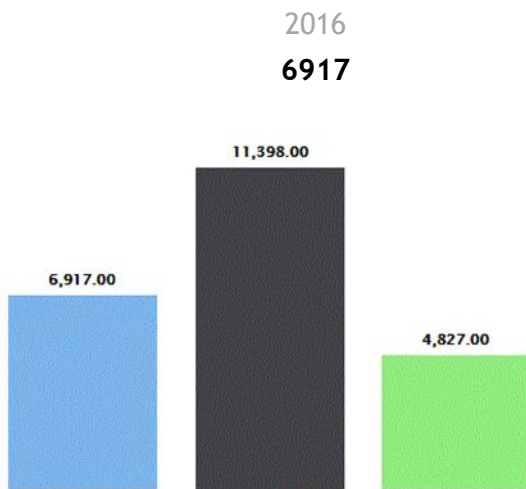




Definition:

The operating cash flow ratio is a measure of how well current liabilities are covered by the cash flow generated from a company's operations thus showing a company's ability to meet the near future liabilities without having to sell assets or borrow money.

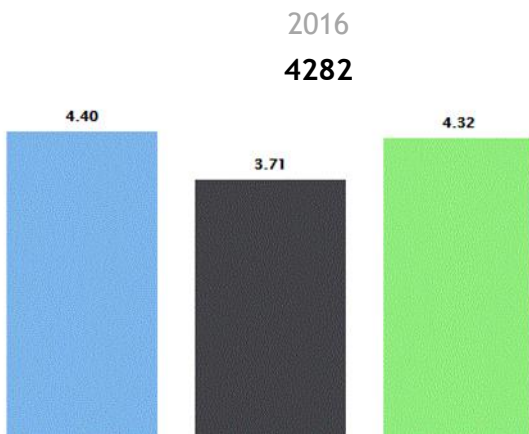
Free cash flow to equity (FCFE)



Definition:

Is a metric of how much cash can be distributed to the equity shareholders of the company as dividends or stock buybacks after all expenses, reinvestments, and debt repayments are taken care of. Whereas dividends are the cash flows actually paid to shareholders. The FCFE is the cash flow simply available to shareholders.

Dividend Paid



Definition:

A dividend is a payment made by a corporation to its shareholders, usually as a distribution of profits.

Method of Calculation

Below is the method of calculation for the financial ratios used in this document based on the annual data analysis:

Liquidity Ratios

Current Ratio	Current Assets / Current Liabilities
Quick Ratio	(Current Assets-Inventories-Other Current Assets) / Current Liabilities
Cash Ratio	(Cash + Cash Equivalent + Marketable Securities) / Current Liabilities
Defensive Interval Ratio	(Cash + Marketable Securities + Receivables) / Average Daily Expenditures... Average Daily Expenditures = (Total Expenses - Depreciation) / 360

Leverage Ratios

Debt to total assets	Total Debt / Total Assets
Debt to equity (D/E)	Total Debt / Shareholder's Equity
Long-Term Debt to Equity	Long Term Debt / Shareholder's Equity
Cash Debt Coverage (CDCR)	Cash Flow from Operations / Average Total Liabilities
CFO to Dividend	Cash Flow from Operations / Dividends Paid
Investing and Financing	Cash Flow from Operations / (Cash Outflows from Investing and Financing Activities)
Degree of Operating Leverage (DOL)	% Change in EBIT / % Change in Revenue
Degree of Financial Leverage (DFL)	% Change in Net Income / % Change in EBIT

Degree of Total Leverage (DTL)	$\% \text{ Change in Net Income} / \% \text{ Change in Revenue}$
Interest Coverage	$\text{EBIT} / \text{Interest Expense}$
Cash Coverage	$(\text{EBIT} + \text{Depreciation}) / \text{Interest Expense}$
Sustainable Growth Rate (SGR)	Return on Equity * (1 - Dividend Payout Ratio). Return on Equity = $\text{Net Income} / \text{Average Shareholders' Equity}$. Dividend Payout Ratio = $\text{Dividends To Common Shareholders} / \text{Net Income}$

Activity Ratios

Average Accounts Receivable Turnover	$\text{Net Credit Sales} / \text{Average Accounts Receivable}$
Average Inventory Turnover	$\text{Purchases} / \text{Average Inventory OR COGS} / \text{Average Inventory}$
Average Accounts Payable Turnover	$\text{Purchases} / \text{Average Accounts Payable OR} (\text{COGS} - \text{Beginning Inventory} + \text{Ending Inventory}) / \text{Average Accounts Payable}$
Days' Sales Outstanding (DSO)	$365 / \text{Average Accounts Receivable Turnover}$
Days' Inventory Outstanding (DIO)	$365 / \text{Average Inventory Turnover}$
Days' Payables Outstanding (DPO)	$365 / \text{Average Accounts Payable Turnover}$
Cash Conversion Cycle (CCC)	$\text{DIO} + \text{DSO} - \text{DPO}$
Average Assets Turnover	$\text{Revenue} / \text{Average Total Assets}$
Average Fixed Assets Turnover	$\text{Revenue} / \text{Average Net Fixed Assets}$
Average Working Capital Turnover	$\text{Revenue} / (\text{Average Current Assets} - \text{Average Current Liabilities})$
Revenue Per Employee	$\text{Revenue} / \text{Average Number of Employees}$

Cash Flow from Operations to Net Income	$\text{Cash Flow From Operations} / \text{Net Income}$
Average Working Capital to Sales	$\text{Average Working Capital} / \text{Revenue}$
Profitability Ratios	
Gross Margin	$(\text{Revenue} - \text{COGS}) / \text{Revenue}$
EBITDA Margin	$\text{EBITDA} / \text{Revenue}$
EBIT Margin	$\text{EBIT} / \text{Revenue}$
Pretax Profit Margin	$\text{Income Before Tax} / \text{Revenue}$
Profit Margin	$\text{Net Income} / \text{Revenue}$
Return on Average Assets (ROA)	$\text{Net Income} / \text{Average Total Assets}$
Operating Efficiency	$(\text{Net Income} / \text{Revenue})$
Assets Efficiency	$(\text{Revenue} / \text{Average Total Assets})$
Financial Leverage	$(\text{Average Total Assets} / \text{Average Equity})$
Return on Average Equity (ROE)	$\text{Net Income} / \text{Average Shareholders' Equity}$
Return on Capital Employed (ROCE)	$\text{EBIT} / (\text{Total Assets} - \text{Current Liabilities})$
Earnings Per Share (EPS)	$(\text{Net Income} - \text{Preferred Dividends}) / \text{Weighted Average Common Shares Outstanding}$
Free Cash Flow (FCF)	$\text{Cash Flow from Operating Activities} + (\text{Interest Expense} * (1 - \text{Tax Rate})) - \text{Capital Expenditure}$
Operating Cash Flow Ratio (OCF)	$\text{Cash Flow From Operations} / \text{Average Current Liabilities}$

Free Cash Flow to Equity (FCFE)	Free Cash Flow + Net Borrowing Change - Interest * (1-t)
Dividend Paid	Dividend Paid

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