



Acme Aircraft Supply, Inc

20 August 2004

Financial Health Scan
&
Financial Diagnostics Report

Company Confidential

Executive Overview

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Financial Health Check

				Business Impact	
	1999	2000	% Change	Positive	Negative
PROFITABILITY					
Revenue	22,953	28,414	23.79%	X	
Gross Profit	7,486	8,591	14.76%		
Gross Margin %	32.61	30.24	-7.27%		X
Operating Exp %	16.63	19.24	15.69%		X
EBIT	3,669	3,524	-3.95%		
EBIT Margin %	15.98	12.40	-22.40%		X
Net Income %	7.06	6.08	-13.88%		X
Interest Cover	10.63	8.25	-22.39%		X
WORKING CAPITAL					
Accounts Receivable	4,209	2,662	-36.75%		
Accounts Receivable Days	66.93	34.20	-48.90%	X	
Inventory	3,122	4,212	34.91%		
Inventory Days	73.67	77.56	5.28%		X
Accounts Payable	3,821	2,394	-37.35%		
Accounts Payable Days	90.17	44.08	-51.11%		X
Total Working Capital	3,510	4,480	27.64%		
Working Capital %	15.29	15.77	3.14%		X
CASH FLOW/FUNDING					
Cash After Ops	N/A	3,379	N/A		
Total Liab/Equity	1.77	1.13	-36.16%	X	
Marginal Cash Flow	17.32	14.47	-16.45%		X
Borrowed Funds	2,028	1,892	-6.71%		
Total Cash Flow	N/A	863	N/A		
ROCE					
Profitability %	15.98	12.40	-22.40%		X
Activity	3.91	3.90	-0.26%		X
ROCE %	62.55	48.34	-22.72%		X
OTHER RATIOS					
Debt to Equity	.53	.35	-33.96%	X	
Capital Investment	-----	-----	-		



Financial Diagnostic Report

Profit and Loss Review

The business has generated a Net Profit of \$1,727 for the 2000 period, up on 1999 period which showed a Profit of \$1,621.

Profit & Loss	1999	2000	Variance (\$)	Variance (%)	
Revenue	22,953	28,414	5,461	24%	
COGS	15,467	19,823	4,356	28%	
Gross Profit	7,486	8,591	1,105	15%	↑
Overheads	3,817	5,467	1,650	43%	
Other	-----	(400)	(400)	-100%	
EBIT	3,669	3,524	(145)	-4%	↓
Interest Expense	345	427	82	24%	
Profit Before Tax	3,324	3,097	(227)	-7%	↓
Taxes	1,703	1,370	(333)	-20%	
Extra Items	-----	-----	-----		
Net Profit	1,621	1,727	106	7%	↑
Dividends	-----	395	395	100%	
Adjustments	-----	-----	-----		
Chng Ret Earnings	1,621	1,332	(289)	-18%	↓

Profit & Loss Drivers

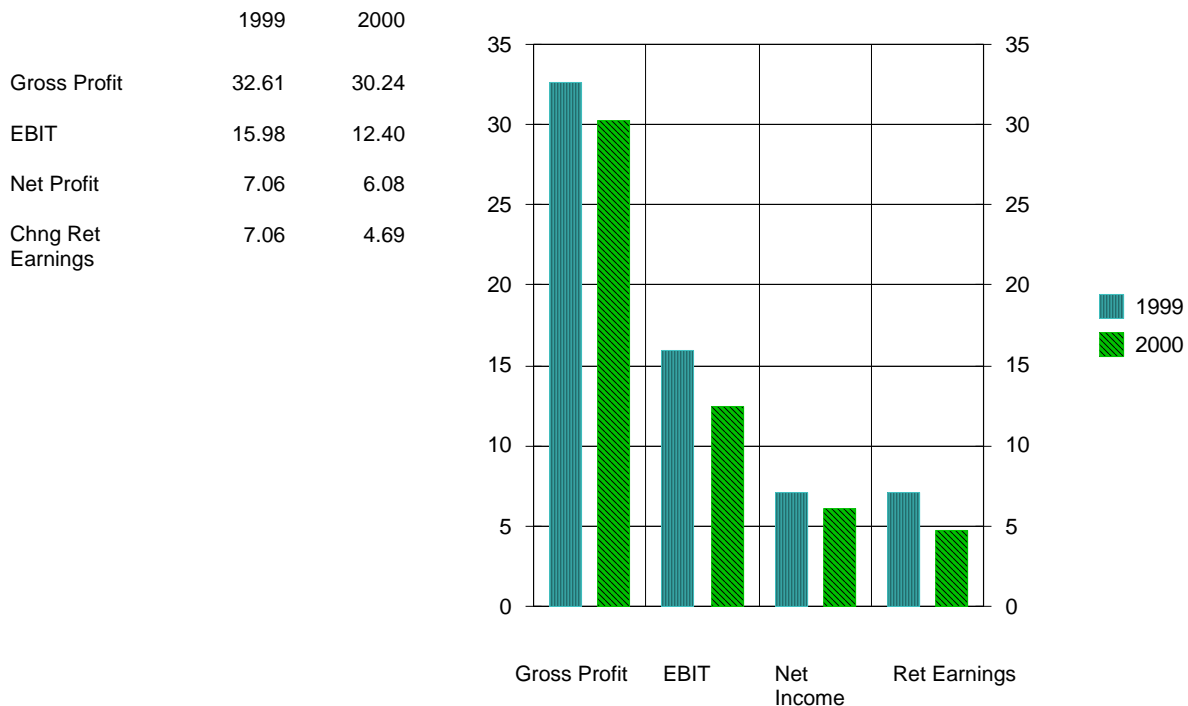
	1999	2000
Rev. Growth %	-	23.79
COGS %	67.39	69.76
Overheads %	16.63	19.24

Profit & Loss Results

Gross Margin %	32.61	30.24
Profitability %	15.98	12.40
Net Profit/Sales	7.06	6.08
Interest Cover	10.63	8.25

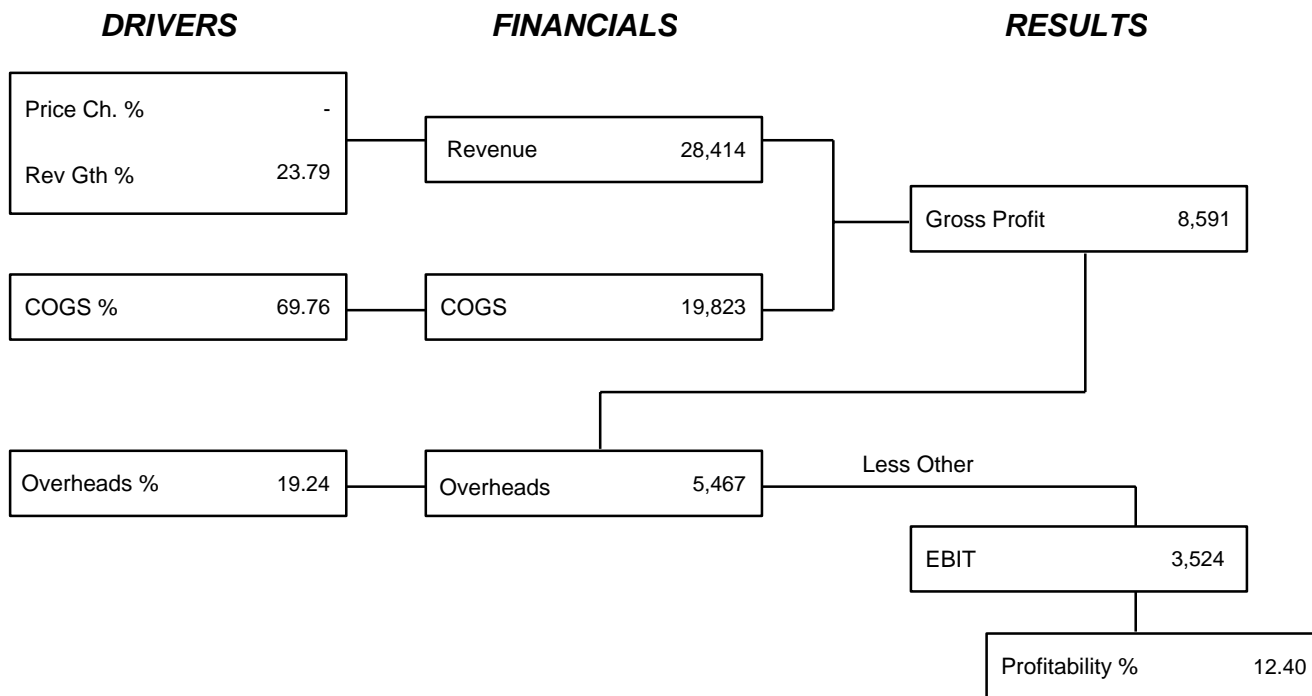
One Unit Analysis	1999	2000	Variance
Revenue	100.00	100.00	-
COGS	67.39	69.76	2.37
Gross Profit	32.61	30.24	(2.37)
Overheads	16.63	19.24	2.61
Other	-	(1.41)	(1.41)
EBIT	15.98	12.40	(3.58)
Interest	1.50	1.50	-
Profit Before Tax	14.48	10.90	(3.58)
Taxes	7.42	4.82	(2.60)
Extra Items	-	-	-
Net Profit	7.06	6.08	(.98)
Dividends	-	1.39	1.39
Adjustments	-	-	-
Chng Ret Earnings	7.06	4.69	(2.37)

One unit analysis recalculates the Profit and Loss for both years as a % of revenue. The variance column shows the change from the prior to the current year.



Profitability %

Profitability is 12.40 in 2000 down from 15.98 in 1999.



The Profitability flow chart shows the drivers that have an impact on Profitability. To improve Profitability the business must either increase price, reduce COGS or reduce Overheads.

Profitability is calculated as
$$\frac{\text{EBIT}}{\text{Revenue}} \%$$

For each \$1 of Revenue the business is making 12.40 cents of profit before any Interest, Tax or Dividends are paid.

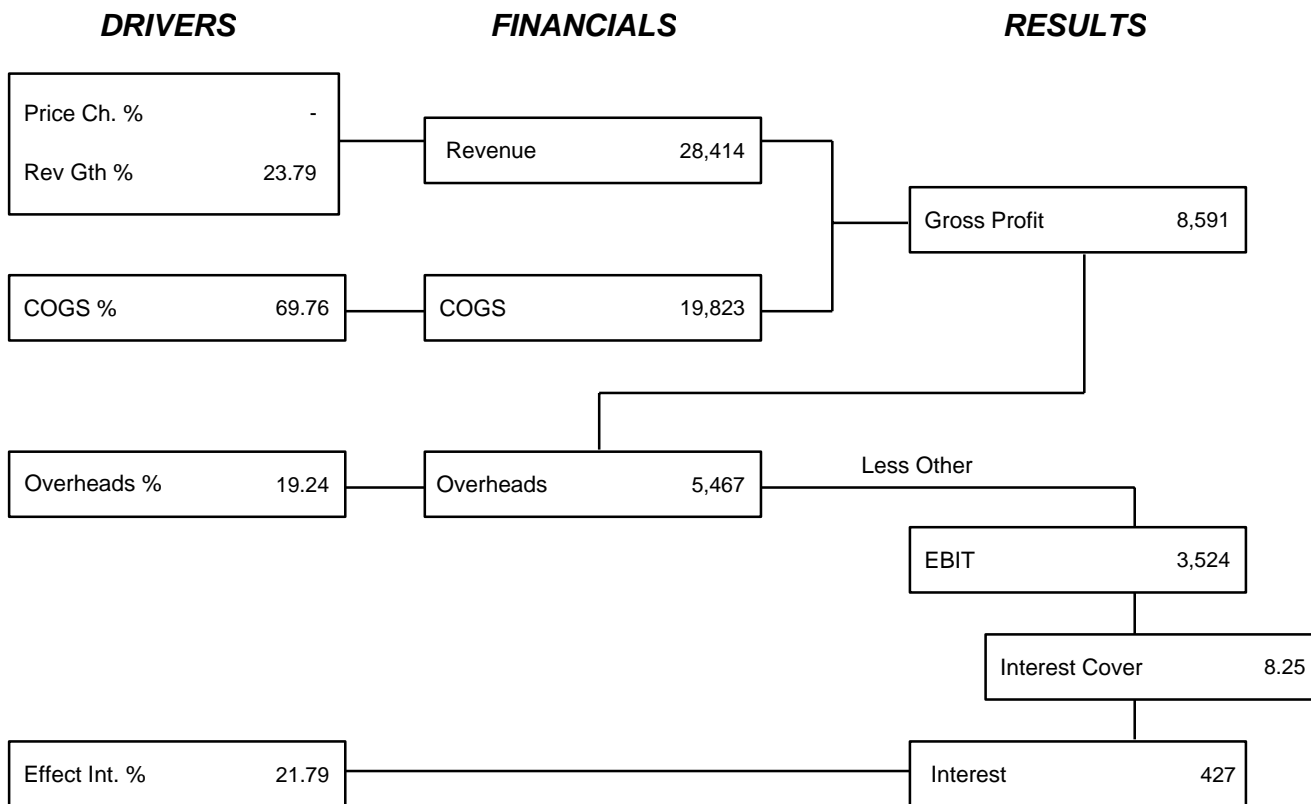
Note: Optimist assumes that Overheads are variable, this is consistent with modern Activity Based Costing concepts.

Note: Changes in Revenue Growth will have little or no impact on Profitability % due to the resultant increase in COGS and Overheads.

How to improve this ratio: To increase Profitability, increase Gross Profit and reduce Overheads.

Interest Cover

Interest Cover is 8.25 in 2000 down from 10.63 in 1999.



The Interest Cover flow chart shows how Interest Cover is calculated.

Interest Cover is calculated as
$$\frac{\text{EBIT}}{\text{Interest}}$$

Interest Cover is 8.25 which is above the generally accepted minimum Interest Cover of 2. To improve Interest Cover, the business can either increase prices, increase Revenue, reduce COGS, reduce Overheads or lower the effective Interest Rate it is paying.

How to improve this ratio: To increase Times Interest Earned, increase Gross Profit, reduce Overheads and/or reduce Interest.

Balance Sheet Review

BALANCE SHEET	1999	2000	Variance (\$)	Variance (%)	
Cash at Bank	135	862	727	539%	
Acc Receivable	4,209	2,662	(1,547)	-37%	↓
Inventory	3,122	4,212	1,090	35%	↑
Other CA	2,340	2,388	48	2%	
Current Assets	9,806	10,124	318	3%	
Fixed Assets - Net	815	1,367	552	68%	↑
Investments	-----	-----	-----		
Other NCA	18	24	6	33%	
Non Curr Assets	833	1,391	558	67%	
Total Assets	10,639	11,515	876	8%	↑
Short Term Debt	528	642	114	22%	↑↑
Accounts Payable	3,821	2,394	(1,427)	-37%	↓↓
Other CL	652	1,431	779	119%	
Current Liabs	5,001	4,467	(534)	-11%	
Long Term Debt	1,500	1,250	(250)	-17%	
Other NCL	300	400	100	33%	
Non Curr Liabs	1,800	1,650	(150)	-8%	
Total Liabs	6,801	6,117	(684)	-10%	↓
Share Capital	387	582	195	50%	
Other Equity	596	629	33	6%	
Retained Earnings	2,855	4,187	1,332	47%	
Equity	3,838	5,398	1,560	41%	↑
Liabs & Equity	10,639	11,515	876	8%	

Balance Sheet Drivers

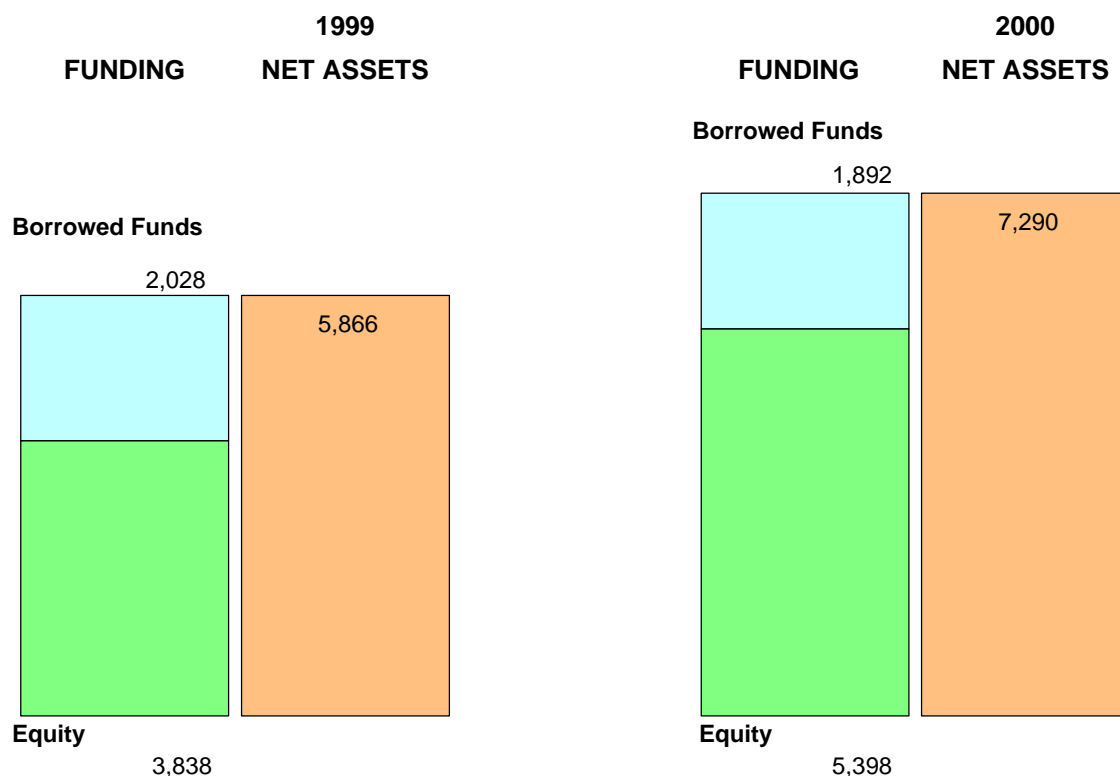
	1999	2000
Days Receivable	66.93	34.20
Days Inventory	73.67	77.56
Days Payable	90.17	44.08
Working Capital Days	50.43	67.68

Balance Sheet Results

Working Cap %	15.29	15.77
Current Ratio	1.96	2.27
Total Liab/Equity	1.77	1.13
Equity/T Assets	36.07	46.88
Activity	3.91	3.90

Relationship of Debt to Equity

How is the Business Funded?



Borrowed Funds + Equity = Net Assets

Debt to Equity 1999: .53

2000: .35

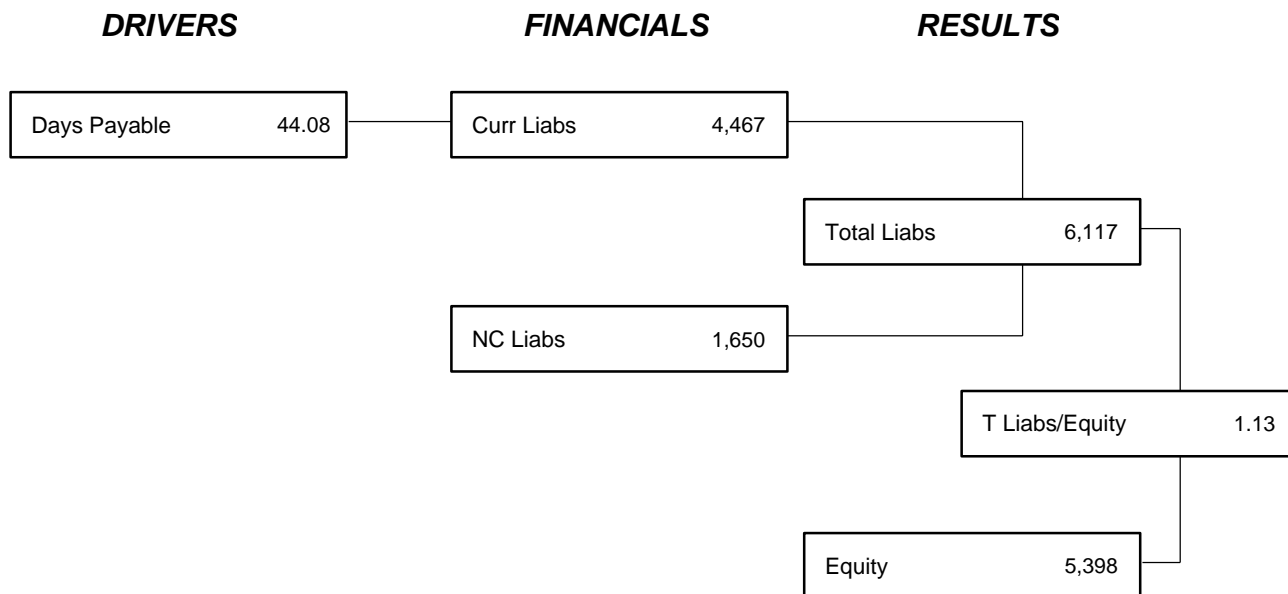
Net Assets has increased by \$1,424. The increase has been funded by equity of \$1,560 and Borrowed Funds of (\$136).

Calculation of Net Assets

	1999	2000
Current Assets	9,806	10,124
Non Curr Assets	833	1,391
Total Assets	10,639	11,515
Less:		
Accounts Payable	3,821	2,394
Other CL	652	1,431
Other NCL	300	400
Net Assets	5,866	7,290

Total Liabs / Equity

Total Liabs to Equity is 1.13 in 2000 down from 1.77 in 1999.



The Total Liabs to Equity flow chart shows how the business is funded. It shows the extent that the business is reliant on external vs internal sources for funding the operations.

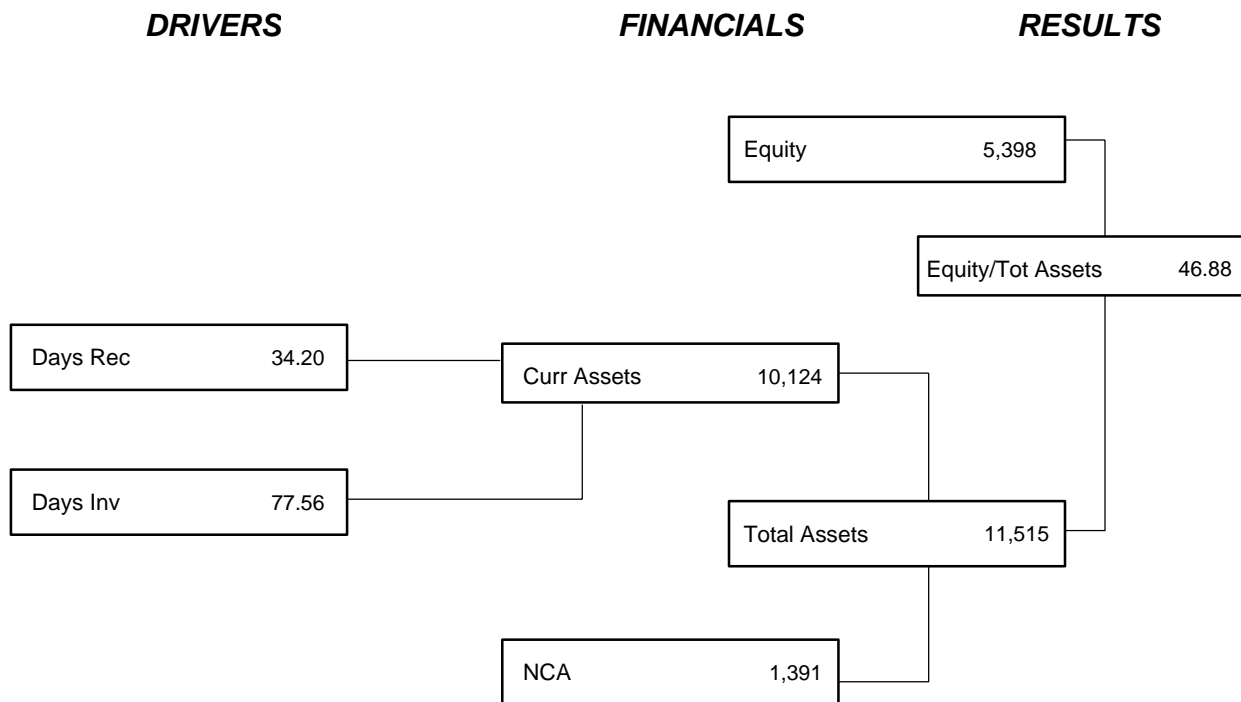
Total Liabs to Equity is calculated as
$$\frac{\text{Total Liabilities}}{\text{Equity}}$$

For each \$1 of equity the owners have provided \$1.13 have been provided by other sources:- creditors, financial institutions and others.

How to improve this ratio: To reduce this ratio, reduce liabilities e.g. Accounts Payable or Borrowings or increase Equity through a capital injection.

Equity to Total Assets

Equity to Total Assets is 46.88 in 2000 up from 36.07 in 1999.



Equity to Total Assets shows the proportion of Total Assets funded by the owners.

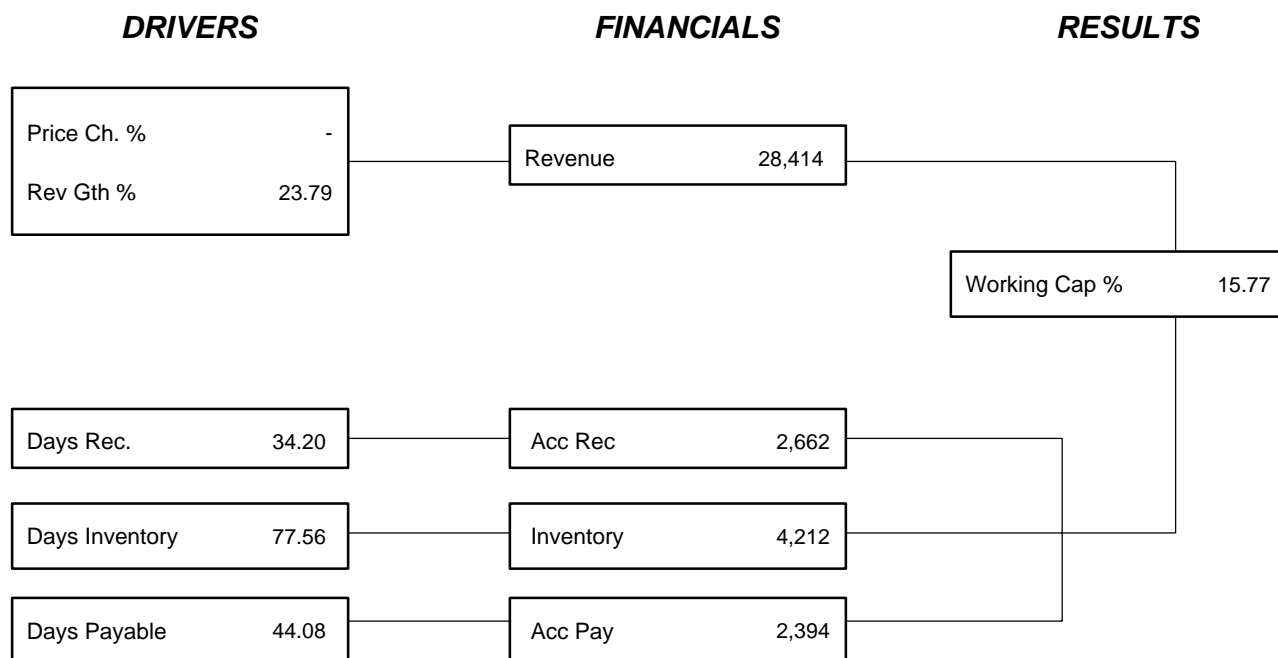
Equity to Total Assets is calculated as
$$\frac{\text{Equity}}{\text{Total Assets}} \%$$

The business has Total Assets of \$11,515 up from last year's \$10,639, 46.88 of these assets are funded internally and 53.12 funded externally, primarily from creditors, financial institutions and others.

How to improve this ratio: To increase this ratio, reduce assets by collecting Accounts Receivable more quickly, reducing Inventory and/or disposing of any excess assets. An increase in equity will also improve this ratio. This can be achieved by an injection of Share Capital or an increase in profit.

Working Capital %

Working Capital % is 15.77% in 2000 up from 15.29% in 1999.



Working Capital % is a critical measure for a growing business. This measure indicates the proportion of each \$1 of Revenue that needs to be invested in Working Capital to generate that sale.

Working Capital % is calculated as
$$\frac{\text{Acc Rec} + \text{Inventory} - \text{Acc Pay}}{\text{Revenue}} \%$$

The business has a Working Capital % of 15.77. For each \$1 of Revenue 16 cents have been invested into Working Capital.

How to improve this ratio: To reduce Working Capital: collect Accounts Receivable more quickly, reduce Inventory and/or increase Accounts Payable terms. An increase in Revenue will only improve this ratio if it is at better terms of trade or does not require additional Inventory.

Marginal Cash Analysis

Marginal Cash Analysis	1999	2000
Revenue	100.00	100.00
COGS	67.39	69.76
Gross Profit	32.61	30.24
Acc Receivable	18.34	9.37
Inventory	13.60	14.82
Acc Payable	16.65	8.43
Working Capital	15.29	15.76
Marginal Cash Flow	17.32	14.48
Overheads	16.63	19.24
Net Variable Cash Flow	.69	(4.76)

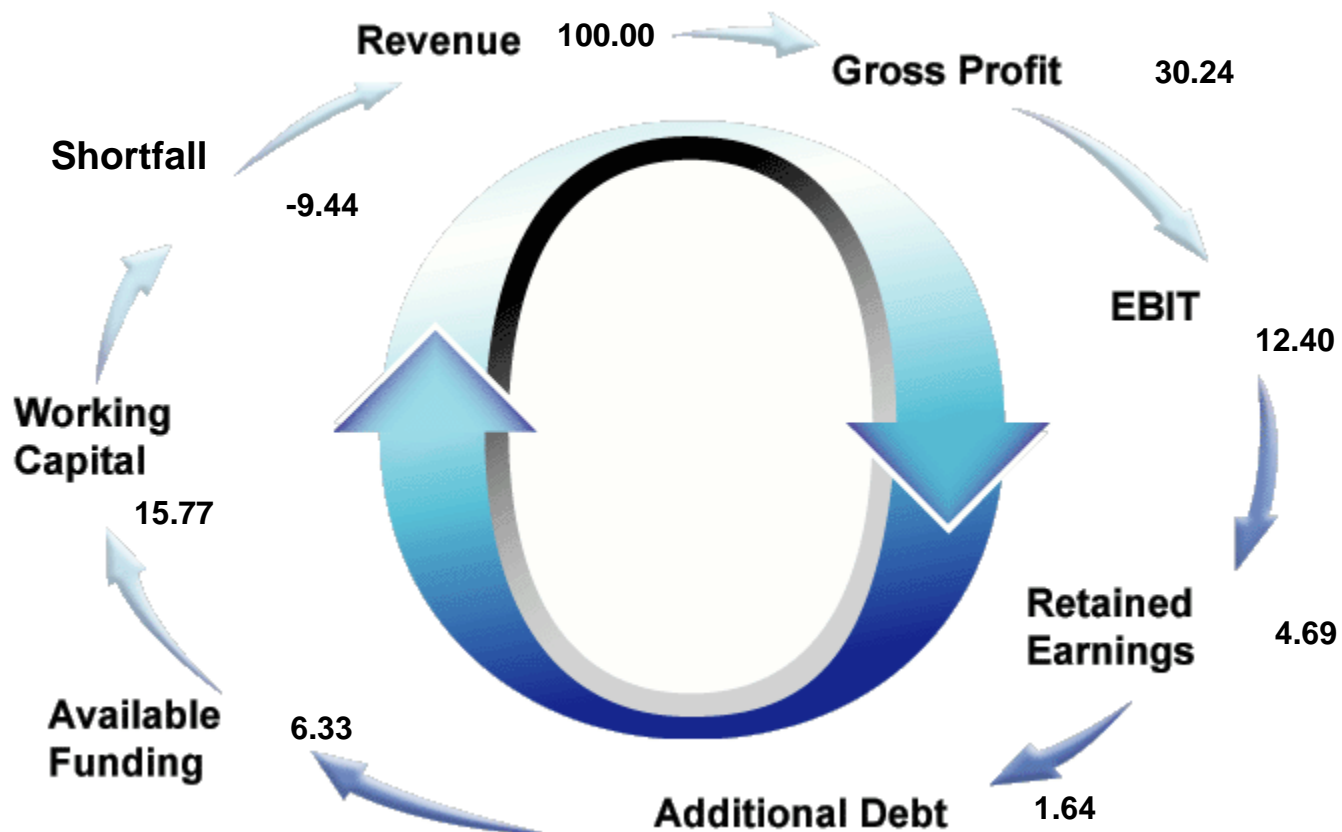
Marginal Cash Analysis shows what the cash requirements would be, if the business were to generate \$1 of additional revenue. The Marginal Analysis assumes that there will be no change in the relationships e.g. Gross Profit % or Overheads %.

From \$1 of Revenue

The business has generated 30.24 cents of Gross Profit and invested 15.76 cents in Working Capital.

This has caused a net variable outflow of -4.76 cents per \$1 of Revenue. The Net Variable Cash Flow is negative because the Overheads of 19.24 are greater than the marginal Cash Flow of 14.48 per \$1 Revenue. The funding for the growth in Revenue will have to be attained in the form of debt or equity unless Revenue can increase without a subsequent increase in Overheads.

Sustainable Growth Cycle Report



For each \$1 of Revenue 30.24 cents of Gross Profit is generated with an EBIT of 12.40 cents and Retained Earnings of 4.69 cents. Assuming the business's Debt to Equity ratio of .35 is maintained, the bank will provide an additional 1.64 cents of debt. Total available funding is therefore 6.33 cents. In order to generate the next \$1 of Revenue, the business requires 15.77 cents of Working Capital. There is a funding Shortfall of -9.44.

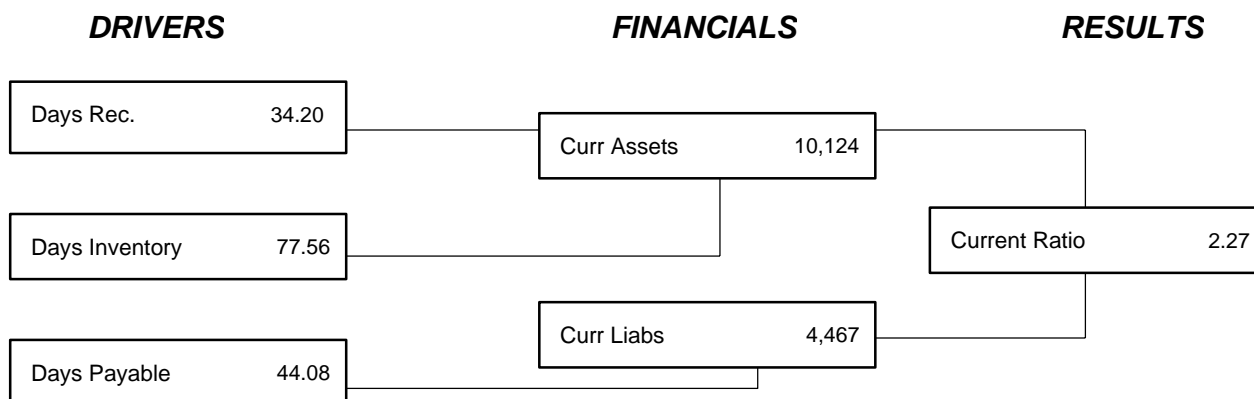
The Sustainable Growth concept takes the marginal cash analysis further. The sustainable growth cycle shows the surplus or shortfall in funding additional growth in Revenue. The concept of Sustainable Growth is based on the assumption that all relationships will remain in place.

If the bank is not prepared to provide additional debt, the shortfall will be 11.08.

Note: It is assumed that the available funding is only utilised for Working Capital. If the business requires any additional Fixed Assets to increase Revenue, the funding to these assets will also have to be found.

Current Ratio

Current Ratio is 2.27 in 2000 up from 1.96 in 1999.



Current ratio measures the relationship between Current Assets and Current Liabilities and shows the ability of the business to fund its current obligations.

Current ratio is calculated as

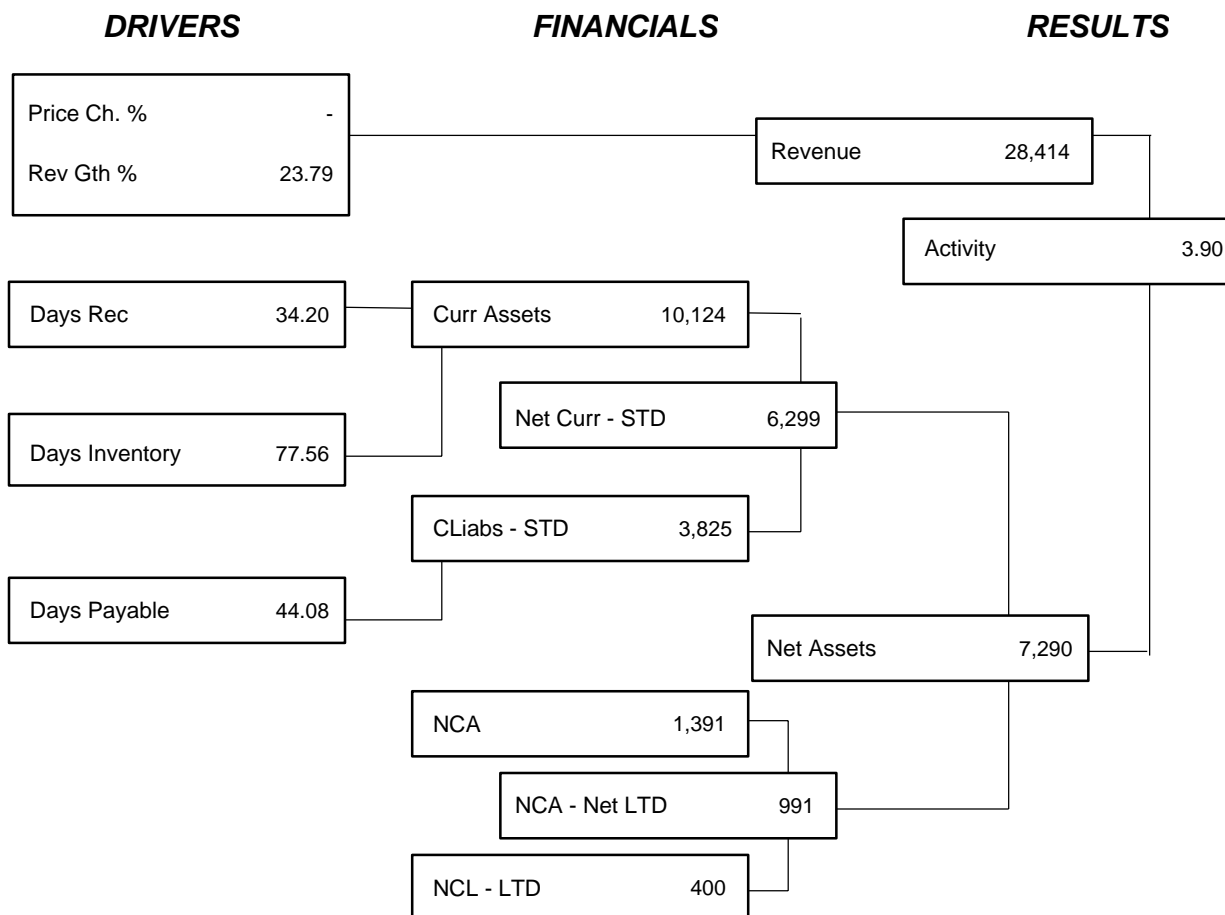
$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The business has a Current Ratio of 2.27. For every \$1 of Current Liabilities, the business has \$2.27 of Current Assets.

How to improve this ratio: To increase this ratio, increase Current Assets and reduce Current Liabilities. Holding excess Current Assets is not efficient for business. Ratios such as Working Capital %, Activity and ROCE % are all maximised when Current Assets are minimised. Therefore, the key to improving this ratio is to minimise Current Liabilities.

Activity

Activity is 3.90 in 2000 down from 3.91 in 1999.



Activity is also known as Asset Turnover. It shows how many times the business is effectively turning over its Net Assets.

Activity is calculated as
$$\frac{\text{Revenue}}{\text{Net Assets}}$$

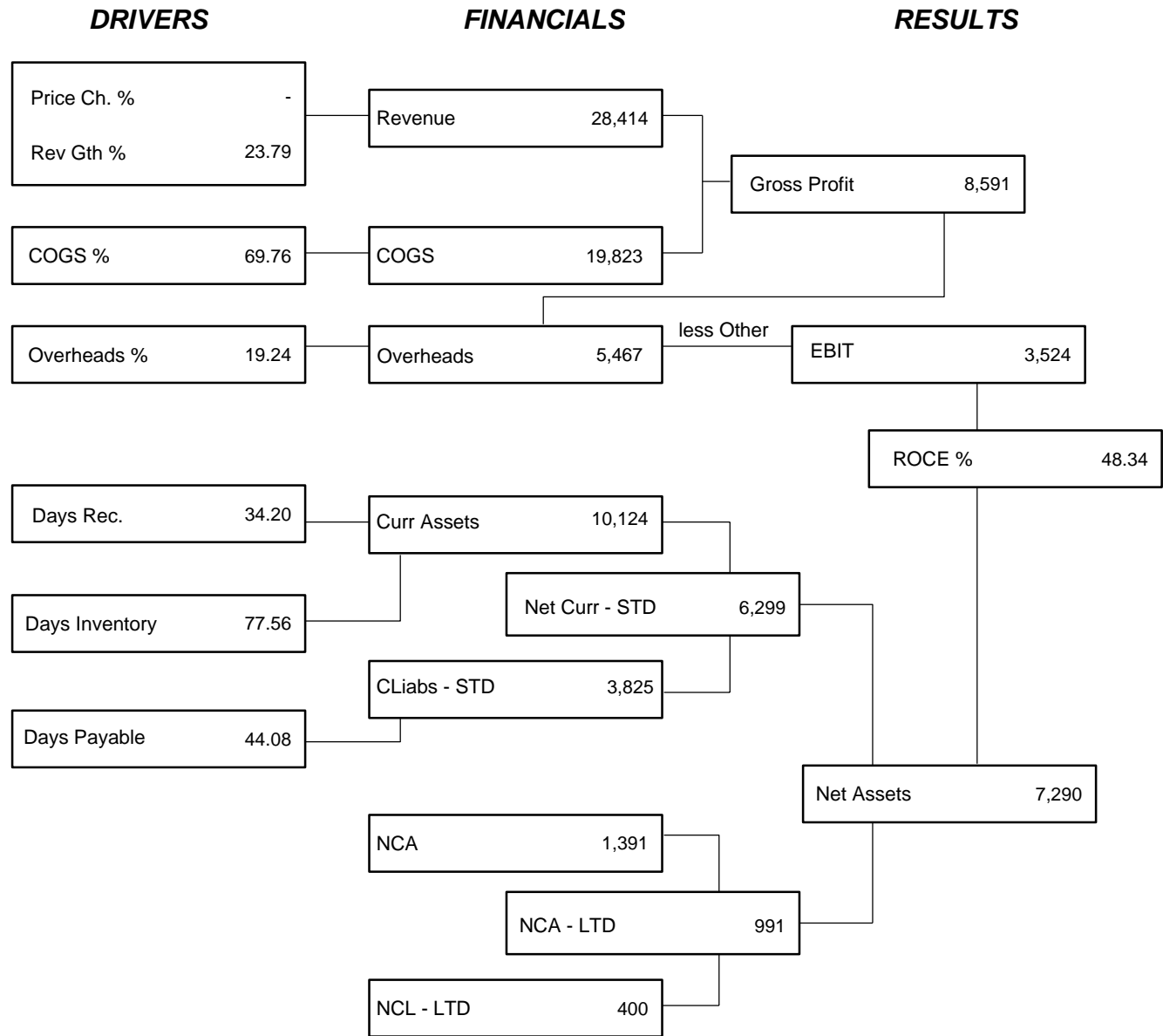
Net assets are the operating assets of the business including Borrowed Funds.

The business has an Activity of 3.90 for every \$1 of Net Assets and the business is currently generating \$3.90 of Revenue. Activity indicates the ability of a business to grow.

How to improve this ratio: To reduce Working Capital: collect Accounts Receivable more quickly, reduce Inventory and/or increase Accounts Payable terms. An increase in Revenue will only improve this ratio if it is at better terms of trade or does not require additional Inventory or reduces Non Current Assets by disposing of any unused assets.

ROCE %

ROCE % is 48.34 in 2000 down from 62.55 in 1999.



ROCE % is also calculated as Profitability x Activity

	1999	2000
Profitability % = EBIT/Revenue %	15.98	12.40
Activity = Revenue / Net Assets	3.91	3.90
ROCE % = EBIT/Net Assets %	62.55	48.34

Analysis of ROCE %

ROCE % is also known as RONA (Return On Net Assets). It measures the rate of return the business is earning on the net assets it has invested in. ROCE % combines the Profit and Loss, and Balance Sheet into one measure and is calculated as:

$$\frac{\text{EBIT}}{\text{Net Assets}} \quad \%$$

How to improve this ratio: To increase Return on Capital Employed, the business must improve its Profit and Lost Statement, and or Balance Sheet management. This can be done by maximising profitability and activity.

How to improve Profitability: To increase Profitability, increase Gross Profit and reduce Overheads.

How to improve Activity: To reduce Working Capital: collect Accounts Receivable more quickly, reduce Inventory and/or increase Accounts Payable terms. An increase in Revenue will only improve this ratio if it is at better terms of trade or does not require additional Inventory or reduces Non Current Assets by disposing of any unused assets.

Profit to Cash

Gross Cash Profits		
Revenue	28,414	GROSS CASH PROFITS show the actual cash generated from Revenue less the actual cash spent on cost of Revenue. GROSS CASH PROFITS are therefore the actual cash receipts less cash payments for Cost of Goods.
Change in Receivables	1,547	
Cash From Sales	29,961	
Cost of Goods Sold	(19,823)	
Change in Inventories	(1,090)	
Change in Payables	(1,427)	
Cash Production Costs	(22,340)	
GROSS CASH PROFITS	7,621	

Cash After Operations		
GROSS CASH PROFITS	7,621	CASH AFTER OPERATIONS is a critical measure for the business. Cash after Operations measures the cash generated from the day to day operations of the business. The cash payment for Overheads is subtracted from the Gross Cash Profits. Miscellaneous transactions take Accruals and other Adjustments into account.
Operating Expense	(5,467)	
Miscellaneous Transactions	1,225	
Cash Operating Expense	(4,242)	
CASH AFTER OPERATIONS	3,379	

Net Cash Income

CASH AFTER OPERATIONS	3,379
Income Taxes Paid	(1,370)
NET CASH AFTER OPERATIONS	2,009
Interest Paid	(427)
Dividends Paid	(395)
Financing Cost	(822)
NET CASH INCOME	1,187

NET CASH INCOME measures the cash generated after the payment of Tax, Interest and Dividends.

Cash Flow

NET CASH INCOME	1,187
Change in Fixed Assets	(552)
Change in Investments	-----
Change in Intangibles	-----
Investment In Non Current Assets	(552)
NCI AFTER ASSETS	635
Change In Shareholder Funds	228
NCI AFTER SHAREHOLDER FUNDS	863
Change in Long Term Debt	(250)
Change in Short Term Debt	114
CHANGE IN CASH AT BANK	727
Opening Cash at Bank	135
Closing Cash at Bank	862

NCI AFTER ASSETS measures the cash available after the acquisitions and disposals of Fixed Assets, Investments and Intangibles

Cash Wastage Report

	Variance		Growth	Price Effect	Wastage/Gain
Revenue	24%	5,461	5,461	-----	
Acc Receivable	-37%	-1,547	1,001	-----	2,548
COGS	28%	4,356	3,680		-676
Inventory	35%	1,090	879		-211
Accounts Payable	-37%	-1,427	1,076		-2,503
Overheads	43%	1,650	908		-742
		-1,515	69	-----	-1,584

The Cash Wastage report highlights how efficiently the business has managed growth in Revenue.

Revenue has grown by 24 % or 5,461.

Accounts Receivable have decreased by -37 % or \$1,547. A reduction in Accounts Receivable with an increase in Revenue has shown a positive impact on cash flow with a gain.

The business has reduced its Gross Margin. The effect of this is a wastage of \$676.

Inventory has increased by 35 % or \$1,090. If Inventory growth was limited to 28 % the increase would have been \$879. The additional increase in Inventory of 211 is wastage.

The business has reduced Accounts Payable by 37 % or \$1,427. The increase in COGS % of 28 % would have expectations of an increase in Accounts Payable. The effect of the reduction in Accounts Payable has had a negative impact on cash flow of \$2,503.

The business has increased Overheads more than the increase in Revenue. The effect of this is a wastage of \$742.



Financial Summary

Profit & Loss	1999	2000	Variance (\$)
Revenue	22,953	28,414	5,461
COGS	15,467	19,823	4,356
Gross Profit	7,486	8,591	1,105
Overheads	3,817	5,467	1,650
Other	-----	(400)	(400)
EBIT	3,669	3,524	(145)
Interest Expense	345	427	82
Profit Before Tax	3,324	3,097	(227)
Taxes	1,703	1,370	(333)
Extra Items	-----	-----	-----
Net Profit	1,621	1,727	106
Dividends	-----	395	395
Adjustments	-----	-----	-----
Chng Ret Earnings	1,621	1,332	(289)
Balance Sheet			
Cash at Bank	135	862	727
Acc Receivable	4,209	2,662	(1,547)
Inventory	3,122	4,212	1,090
Other CA	2,340	2,388	48
Current Assets	9,806	10,124	318
Fixed Assets - Net	815	1,367	552
Investments	-----	-----	-----
Other NCA	18	24	6
Non Curr Assets	833	1,391	558
Total Assets	10,639	11,515	876
Short Term Debt	528	642	114
Accounts Payable	3,821	2,394	(1,427)
Other CL	652	1,431	779
Current Liabs	5,001	4,467	(534)
Long Term Debt	1,500	1,250	(250)
Other NCL	300	400	100
Non Curr Liabs	1,800	1,650	(150)
Total Liabs	6,801	6,117	(684)
Share Capital	387	582	195
Other Equity	596	629	33
Retained Earnings	2,855	4,187	1,332
Equity	3,838	5,398	1,560
Liabs & Equity	10,639	11,515	876

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Other Equity	596	629
Retained Earnings	2,855	4,187
Equity	3,838	5,398
Liabs & Equity	10,639	11,515



Sensitivity Report

Drivers

Results

	Rev. Growth %	COGS %	Price Chng %	Op Exps %	Days Rec	Days Inv	Days Pay
Sensitivity	1 %	-1 %	1 %	-1 %	-1 %	-1 %	1 %
Profitability %	-0.08	8.14	7.01	8.06			
Net Profit/Sales	-0.16	9.87	8.56	9.71	0.16		
Interest Cover	0.12	13.93	12.12	12.97	1.21	0.48	0.61
Working Cap %		-0.63	-0.44		-0.95	-0.44	-0.44
Current Ratio	-0.44	4.85	3.53	3.97	0.44		
Total Liab/Equity	0.88	-6.18	-5.29	-5.29	-0.88		
Equity/T Assets	-0.26	3.71	2.86	3.11	0.41	0.17	0.02
Activity	0.26	0.26	0.51		0.51	0.26	0.26
Cash Flow	-2.67	22.83	16.22	19.58	5.21	2.20	2.43
Cash After Ops	-0.33	9.23	7.64	8.40	1.24	0.53	0.59
Debt to Equity		-14.27	-11.41	-11.41	-2.85		
ROCE %	0.23	8.50	7.67	8.07	0.58	0.25	0.27
Valuation							
Value Added							

How to interpret the table:

Example : -1 % Change in COGS % would result in 8.14 change in Profitability % and therefore COGS % is the most sensitive driver of Profitability %.

Abbreviation:

- Rev Gth % - Revenue Growth %
- COGS % - Cost of Goods Sold %
- Price Chng % - Price Change %
- Op Exps % - Operating Expense %
- Days Rec - Days Receivable
- Days Inv - Days Inventory
- Days Pay - Days Payable

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