

Computer and Peripheral Equipment Manufacturing

Industry Financial Data and Ratios

12/31/08



To obtain reports for additional Industries contact
Harvest Business Advisors
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Industry: 33411 - Computer and Peripheral Equipment Manufacturing
Sales Range: All Sales Ranges
Data Source : Private Companies
Location: All Areas
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INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (27)	2008 (29)	2007 (47)	All Years (345)
Current Ratio	3.01	2.90	2.27	2.55
Quick Ratio	1.75	1.65	1.32	1.41
Gross Profit Margin	42.16%	40.86%	40.19%	37.87%
Net Profit Margin	5.95%	2.47%	3.16%	5.81%
Inventory Days	52.94	55.45	54.97	56.88
Accounts Receivable Days	49.43	50.13	43.85	44.46
Accounts Payable Days	44.20	45.26	52.65	44.26
Interest Coverage Ratio	6.80	6.80	3.67	6.38
Debt-to-Equity Ratio	1.12	1.26	2.42	1.74
Return on Equity	20.49%	19.01%	19.43%	16.83%
Return on Assets	12.76%	10.12%	6.01%	8.20%
Fixed Asset Turnover	10.13	10.10	15.67	13.64
Sales per Employee	\$263,170	\$294,019	\$365,265	\$251,424
Profit per Employee	\$15,036	\$4,114	\$22,376	\$14,111
Debt Service Coverage Ratio	1.72	2.13	0.70	2.53
Growth Metric	Recent 12 Months (15)	2008 (16)	2007 (22)	All Years (159)
Profit Growth	6.98%	8.31%	-13.53%	15.56%
Sales Growth	-5.59%	-5.86%	2.52%	9.94%

INDUSTRY DATA COMMON SIZE
Average by Year (Number of Financial Statements)

Income Statement	Recent 12 Months (27)	2008 (29)	2007 (47)	All Years (345)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	57.84%	59.14%	61.00%	61.76%
Gross Profit	42.16%	40.86%	40.19%	37.87%
Depreciation	0.75%	0.76%	0.70%	1.35%
Overhead or S,G,& A Expense	26.75%	27.45%	28.40%	27.14%
Other Operating Income	0.00%	0.00%	0.15%	0.06%
Other Operating Expenses	3.26%	3.69%	8.43%	2.67%
Operating Profit	6.51%	2.84%	2.47%	5.16%
Interest Expense	0.59%	0.55%	0.94%	0.88%
Other Income	0.16%	0.15%	0.19%	0.29%
Other Expenses	0.24%	0.23%	0.40%	0.26%
Net Profit before Taxes	6.42%	2.92%	1.40%	4.66%
Adjusted Net Profit before Taxes	5.95%	2.47%	3.16%	5.81%
EBITDA	7.91%	5.97%	3.97%	6.97%
Taxes Paid	0.21%	0.24%	0.30%	0.48%
Net Income	5.65%	5.69%	3.02%	4.16%
Balance Sheet	Recent 12 Months (27)	2008 (29)	2007 (47)	All Years (345)
Cash (Bank Funds)	11.72%	10.47%	14.66%	13.10%
Accounts Receivable	36.49%	36.95%	30.38%	29.90%
Inventory	24.39%	24.17%	24.25%	25.55%
Other Current Assets	3.56%	4.81%	4.67%	4.77%
Total Current Assets	76.68%	76.84%	80.12%	77.87%
Gross Fixed Assets	53.89%	51.64%	34.15%	33.59%
Accumulated Depreciation	47.07%	46.29%	26.45%	16.63%
Net Fixed Assets	13.75%	13.20%	12.73%	17.71%
Other Assets	5.99%	6.70%	4.47%	3.97%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	24.71%	25.37%	24.03%	23.69%
Current Portion of Long Term Debt	3.88%	3.85%	6.19%	2.58%
Other Current Liabilities	6.16%	6.09%	12.93%	19.61%
Total Current Liabilities	38.27%	38.55%	45.45%	46.65%
Long Term Liabilities	45.03%	43.66%	22.53%	23.62%
Total Liabilities	83.35%	82.25%	68.01%	70.29%
Ending Retained Earnings	-34.05%	-31.21%	-31.47%	-8.28%
Total Equity	16.65%	17.75%	32.27%	29.73%

LIQUIDITY

What are some potential ways to improve the company's ability to meet obligations as they come due?

- ▶ Discover ways to receive returns on excess cash balances. For example, set up a "sweep" account at the bank so that interest can be earned on any excess funds in the checking account. These accounts allow the business to transfer funds overnight into an account that earns more interest.
- ▶ Increase prices selectively where possible. Done effectively, this can boost cash flow and liquidity. Good Income Statement management helps Balance Sheet performance.
- ▶ Eliminate or reduce some overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if fixed costs can be reduced (those costs that tend to stay the same over time).
- ▶ Sell things that can boost cash such as unproductive assets. These are assets that are not contributing sufficiently to the generation of income and cash flow (possibly because they are under-utilized).
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Try to update these forecasts on a monthly or even bi-weekly basis, since this can help predict/prepare for potential cash shortfalls that may occur in the future.
- ▶ Borrow some long-term money (if necessary and possible) and put the funds into a liquid (cash) account.
- ▶ Pull frequent (weekly) accounts receivable reports in order to examine how effective the business is at collecting funds. Apply and collect late fees on delinquent receivables when possible -- charge interest on past due invoices.
- ▶ Bill customers more quickly (even three days earlier each month) in order to speed up the collection process and get funds into the business faster.
- ▶ Provide discounts to customers who pay early in order to speed up collections. Under certain circumstances, this can be an effective strategy -- these cash receipts can be invested in growth or higher interest rate accounts.
- ▶ Use as much trade credit or vendor financing as is reasonable/possible -- this is the best form of short-term financing. For example, increase a 30 day payment window to 60 days. A business should not only maximize trade credit, but stretch its terms out if feasible.
- ▶ Structure accounts receivable properly. Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. Be selective in choosing which customers will receive any credit at all and make sure giving credit will increase revenues and income.
- ▶ 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.
- ▶ If the business is having difficulty meeting obligations, term out some short-term debt if necessary and possible -- move some short-term debt down the Balance Sheet to long-term debt. This will usually require

refinancing from the bank.

- ▶ Use a monthly or bi-monthly payroll schedule if possible -- so long as morale will not be adversely affected. Even labor outlays are a form of short-term financing.
- ▶ Try to establish a sufficient line of credit from the bank. Talking with the bank can be helpful in determining the amount of short-term credit needed to run the business. The business should obtain, but not necessarily use, as much financing as possible from the bank.
- ▶ Reduce the business's operating cycle -- find ways to get products to customers faster. In the long run, becoming more efficient by increasing "throughput" is often the cheapest and most effective way to achieve strong cash flow.
- ▶ Look for seminars offered by professional firms or local colleges on credit and collections and cash flow management. Enroll accounts payable or management personnel in these seminars.
- ▶ Get tough in the collection process generally. Vigilant collection of receivables will rarely decrease a customer base, so collecting faster from existing customers could be beneficial. Generally, receiving payments at the rate that services are performed is ideal.
- ▶ Finance over the long term rather than the short term to help reduce per period cash outflows. If external financing is necessary and possible, locate investors who may be interested in supplying funds to the business.
- ▶ Keep inventory/supply levels as low as possible without adversely affecting the business. This can ultimately help the business keep more money free in the future. To do this effectively, make sure the business is using a good system to forecast inventory needs.
- ▶ Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- ▶ Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.
- ▶ Sell (factor) receivables to collect funds faster. Although this may result in obtaining fewer funds than owed, it can be an effective way to strengthen the cash position of the company.

PROFITS & PROFIT MARGIN

What are some things the company might do to develop favorable profitability trends?

- ▶ Keep track of all costs when billing. Include a portion of overhead to help ensure that the business is covering all expenses associated with operations.
- ▶ Try to pay relatively small insurance claims out of pocket. Insurance providers may offer refunds or reduced rates to companies who are judicious in their filing of insurance claims, which will save the company money in the long run.
- ▶ Develop initiatives aimed at reducing waste from manufacturing processes. Track waste carefully, and look for ways to streamline processes to reduce waste. Offer incentives that will encourage employees to find creative solutions.
- ▶ Hire employees with strong technical expertise, because this is particularly important for efficient operations in manufacturing. Take measures to determine a candidate's ability to think analytically and critically on the

job.

- ▶ Invest in technology, such as thermal imaging and acoustic emissions systems, which allow you to perform predictive maintenance. This will reduce equipment downtime and maintenance costs.
- ▶ Consider using performance metrics to determine employee bonuses. By tying a portion of compensation to performance, employee production will increase.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts). This should allow management the ability to pull "variance reports" to compare budgeted revenues and expenses with actual revenues and expenses.
- ▶ Obtain internal reports that identify the business's key performance indicators (KPIs). KPIs help managers make good decisions by identifying the figures that are critical to performance.
- ▶ Determine if there is a better way to acquire materials and/or inventory than the existing method. It may be possible to purchase less and still maintain sales volume.
- ▶ Take advantage of/negotiate for volume discounts or other concessions with current suppliers.
- ▶ Find low-cost, reliable suppliers who provide quality products. Review/update existing and potential vendor lists continually to ensure that the business is not overspending on supplies/inventory.
- ▶ Invest in activities that can yield positive returns. For example, marketing and employee training can often improve performance for the business.
- ▶ Obtain an annual business check-up. Meet with a consultant or banker to review financial statements and get advice on how to improve performance.
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. Good financial reports are the backbone of management decisions.
- ▶ Establish expense accounts using excess funds not dedicated to taxes. Use these accounts to grow revenues and increase earnings -- marketing expenses, equipment purchases, and employee training can be considered. Remember, this has the dual benefit of lowering present tax burdens (these expenses will lower taxable earnings) and driving long-term profits.
- ▶ Monitor the costs going into all office supplies. With more important costs being monitored closely, many businesses forget to look at this smaller cost, and often allow it to be higher than necessary.
- ▶ Reduce payroll costs, including any overtime expenses as applicable, by maintaining an ideal number of employees and monitoring the number of hours that each employee works.
- ▶ Enroll the business in the right insurance program at a good cost by evaluating alternative carriers. Meet with insurance agents to determine ways to reduce costs by assessing coverage and deductibles.

SALES

What are some things the company can consider to encourage sales growth?

- ▶ Be sure to have an attractive web presence that showcases products manufactured by the business and includes customer testimonials. Establishing credibility can be a key factor in forging new customer relationships.

- ▶ Obtain literature on the latest government regulations and safety issues. Being familiar with these regulations and having these publications on hand can help establish the business as a quality provider.
 - ▶ Establish relationships with solid contacts at each customer location. These relationships help cement your relations with your customers, and also provide avenues for valuable feedback on your products.
 - ▶ Make an effort to reduce environmental pollutants. Public consumers will look favorably on your efforts to “go green.”
 - ▶ Keep up-to-date with the latest technological advancements. Acquiring new and advanced equipment may substantially increase productivity if the technology is utilized effectively.
 - ▶ Compare the business to other manufacturers; benchmark how the business is doing relative to others. Assessing performance through benchmarking can be an effective way to evaluate operations.
 - ▶ Keep open lines of communication with customers to help ensure quality customer service. Customers generally prefer a business that takes the time to answer questions promptly and knowledgeably.
 - ▶ Use industry experts and consultants to help you improve your business. People with long experience in an industry can save you years of time by leveraging their knowledge. Industry consultants can be found in trade journals and magazines.
 - ▶ Be sure to subscribe to and READ the trade journals that are relevant to the business, such as Computer Weekly. Typically, there is no greater source of good operational information than a trade journal.
 - ▶ Work to establish clear and consistent identifiers so customers can quickly recognize the business. Each forum where the business features itself should help customers quickly identify the business and its offerings.
 - ▶ Keep the customer updated on the progress of manufacturing. Providing updates on work that has been completed will keep the project on track, as well as establish an ongoing relationship with customers.
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