

Report on Sample Co.'s Auto Repair

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Prepared by:



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Industry: 8111 - Automotive Repair and Maintenance
Sales Range: Yearly sales under \$1 Million
Data Source : Private Companies
Location: US - South
Prepared On: 12/1/2008

INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (116)	2007 (165)	2006 (208)	All Years (868)
Current Ratio	1.81	2.18	2.20	2.21
Quick Ratio	0.98	1.21	1.29	1.28
Gross Profit Margin	58.13%	58.82%	55.66%	56.85%
Net Profit Margin	5.12%	3.70%	6.26%	6.03%
Inventory Days	21.59	26.92	16.91	19.56
Accounts Receivable Days	7.53	8.75	6.60	6.52
Accounts Payable Days	17.60	17.74	14.61	14.35
Interest Coverage Ratio	6.88	6.44	9.00	8.29
Debt-to-Equity Ratio	2.52	2.34	2.44	2.10
Return on Equity	9.82%	5.76%	5.45%	7.64%
Return on Assets	6.64%	5.85%	8.05%	7.27%
Fixed Asset Turnover	4.55	6.66	7.24	6.75
Sales per Employee	\$127,064	\$118,009	\$124,453	\$110,950
Profit per Employee	\$11,717	\$5,014	\$10,646	\$8,830
Debt Service Coverage Ratio	0.88	0.89	0.52	1.10
Growth Metric	Recent 12 Months (35)	2007 (43)	2006 (73)	All Years (245)
Profit Growth	4.30%	4.57%	16.27%	15.77%
Sales Growth	3.57%	4.45%	4.12%	6.04%

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

Income Statement	Recent 12 Months (116)	2007 (165)	2006 (208)	All Years (868)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	42.38%	41.57%	45.47%	42.71%
Gross Profit	58.22%	58.82%	55.66%	56.86%
Depreciation	1.89%	1.77%	2.07%	2.23%
Overhead or S,G,&A Expense	36.12%	36.97%	34.32%	36.51%
Other Operating Income	0.03%	0.02%	0.02%	0.04%
Other Operating Expenses	10.87%	7.85%	7.23%	6.24%
Operating Profit	7.15%	4.53%	6.59%	6.18%
Interest Expense	1.97%	1.92%	1.56%	1.88%
Other Income	0.06%	0.05%	0.14%	0.08%
Other Expenses	0.38%	0.54%	0.26%	0.39%
Net Profit before Taxes	4.07%	2.62%	4.80%	5.00%
Adjusted Net Profit before Taxes	5.09%	3.70%	6.26%	6.03%
EBITDA	9.53%	8.62%	9.88%	9.88%
Taxes Paid	0.00%	0.01%	0.00%	0.03%
Net Income	4.50%	3.73%	3.29%	3.71%
Balance Sheet	Recent 12 Months (116)	2007 (165)	2006 (208)	All Years (868)
Cash (Bank Funds)	12.86%	12.32%	16.12%	14.31%
Accounts Receivable	8.77%	9.63%	9.55%	8.46%
Inventory	8.89%	14.01%	12.08%	11.45%
Other Current Assets	3.78%	3.86%	2.68%	3.32%
Total Current Assets	48.60%	53.76%	55.27%	51.72%
Gross Fixed Assets	117.18%	105.17%	107.11%	106.29%
Accumulated Depreciation	67.06%	50.18%	63.54%	55.19%
Net Fixed Assets	45.43%	36.88%	37.33%	40.38%
Other Assets	5.61%	6.57%	3.72%	4.20%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	16.32%	19.50%	26.20%	19.79%
Current Portion of Long Term Debt	6.81%	5.26%	3.71%	3.38%
Other Current Liabilities	14.89%	19.54%	15.22%	16.24%
Total Current Liabilities	40.66%	43.10%	42.11%	38.53%
Long Term Liabilities	52.88%	53.10%	64.88%	58.52%
Total Liabilities	89.69%	93.15%	104.53%	94.40%
Ending Retained Earnings	-3.30%	9.70%	0.59%	2.48%
Total Equity	9.19%	5.86%	-5.35%	4.72%

LIQUIDITY

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

- ▶ Set longer terms for Accounts Payable when possible. For example, increase a 30 day payment window to 60 days.
- ▶ Increase prices selectively where possible. Done effectively, this can boost cash flow and liquidity. Good Income Statement management helps Balance Sheet performance.
- ▶ 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.
- ▶ If cash is a constraint, try to establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible from the bank. If you decide to obtain external financing, structure as long-term rather than short-term in order to decrease monthly payments.
- ▶ Monitor accounts receivable on a weekly basis, and charge interest on invoices that are past due.
- ▶ 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.
- ▶ Monitor invoicing procedures to help ensure correctness. Nothing will delay payment more than sending out an incorrect invoice. This will extend Accounts Receivable and hurt cash flow.
- ▶ If the business is having difficulty meeting obligations, term out some short-term debt if necessary and possible by moving some short-term debt down the Balance Sheet to long-term debt. This usually requires refinancing from the bank.
- ▶ Accept multiple forms of payment, such as credit and debit cards, to help cut down on the number of denied payments (bad checks). This helps to ensure that a business is collecting all of the money it is owed.
- ▶ Watch the payment terms of credit cards, if they are accepted by the business. For example, some credit cards have payment terms of ten days as opposed to the one day terms of others. Longer terms prevent the business from collecting actual payments until much later.
- ▶ 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.

PROFITS & PROFIT MARGIN

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

- ▶ Require employees (particularly technicians) to complete a workplace safety program. This will help you reduce the number of claims, thus reducing insurance costs.
- ▶ Implement an effective waste management system. One of the highest costs for body shops is wasted materials, such as oil.

- ▶ Consider outsourcing your payroll function if it is not a core competency. This will enable you the opportunity to focus more of your time and energy on other areas of the business.
- ▶ Use updated diagnostic tools to assess maintenance problems. This will enable you to decrease time wasted on wrong diagnoses and increase the number of vehicles you can service in a given period.
- ▶ Be sure to charge more to repair parts that are more complicated to fix, and require extra labor hours. Concentrate on profitability, rather than labor rates.
- ▶ Consider offering alternative services, in case one part of the business is temporarily stagnant. For example, you could consider offering consultation services to trucking, and other shipping companies, on the preventative maintenance of their vehicles.
- ▶ 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", which compare budgeted revenues and expenses with actual revenues and expenses.
- ▶ Obtain internal reports that identify the business's key performance indicators (KPIs), such as vehicles serviced weekly. KPIs help managers make good decisions by identifying the figures that are critical to performance.
- ▶ Focus on hiring quality employees, specifically for more important positions. Take measures that can help determine their character and performance history. Call previous employers to help assess these criteria as needed.
- ▶ Search out multiple qualified vendors to get the best prices through competition, while maintaining quality. If the business is not continually reviewing/updating its existing and potential vendor lists, it may overspend on supplies/inventory.
- ▶ Obtain an annual business check-up. Meet with an accountant 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. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.
- ▶ 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.
- ▶ Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness.
- ▶ Enroll the business in the right insurance program at a good cost. Evaluate alternative insurance carriers that may be able to serve the business at a cheaper cost.

SALES

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

- ▶ Have an attractive web presence. List the services you provide, and allow customers to make service appointments online.
- ▶ Consider offering alternative services, in case one part of the business is temporarily stagnant. For example, you could consider offering consultation services to trucking, and other shipping companies, on the preventative maintenance of their vehicles.
- ▶ Establish uniqueness in the service the business offers -- a unique selling feature. By doing so, the business can generate increased demand for its offering and potentially increase prices as well.

- ▶ Clearly define the mission of the business and make it visible to potential clients. This can be done through strategically placed advertisements and serves to let potential customers know what services they can expect from the business.
- ▶ Diversify the offerings of the business, when appropriate. Diversification enables the business to satisfy more customer needs/wants by offering complimentary services/products or substitute services/products to the existing offerings.
- ▶ Establish a niche that the business is known for. Develop the niche in relation to the target audience the business is trying to reach in order to maximize revenues from that group.
- ▶ Create a reputation as a quality provider in order to help generate referrals from customers. When appropriate, consider offering incentives to customers for providing referrals. An example could be offering a gift certificate or coupon in return for a referral that leads to additional business.
- ▶ Work to consistently meet the expectations of customers. Determine what the customer needs and suggest an offering that could help. Effectively meeting customer expectations is often central to maintaining business.
- ▶ Keep open communication with customers to help ensure quality customer service. Many customers will return to a business that takes the time to answer questions promptly and knowledgeably.
- ▶ Compare the business to others in the industry; benchmark how the business is doing in terms of quality and prices. This can help improve the business's competitive position and maintain customers who might be seeking other sources for products or services.
- ▶ Create and maintain a reputation for honesty. In the automobile maintenance industry, customers often appreciate feeling as though they can trust those working on their cars. Many times, this is a leading factor in return business from current customers.
- ▶ Ensure that marketing materials are consistent throughout the business. Sometimes, marketing and advertising materials send different messages, which may confuse potential or existing customers/clients.
- ▶ Display the achievements of the business where appropriate. For example, obtain and display testimonials and/or awards won. This can help establish the business as a quality provider to potential customers.
- ▶ Participate in community events that will spread the business's name and build goodwill among current and potential customers. Examples can include sponsoring youth sports teams or sponsoring a hole in a charity golf tournament.
- ▶ Work on getting free publicity when possible. An example could be contributing to a newspaper or magazine article on a subject associated with the business. Often, being a part of articles can build credibility among customers. In addition, this can help build name recognition, which can potentially attract additional customers.

INDUSTRY OVERVIEW

The automotive repair and maintenance industry is rapidly becoming more technologically advanced. Workers must combine the use of computerized equipment and traditional hand tools to quickly and correctly identify and fix problems. Demand for workers with a vocational or trade school education is increasing because of the more frequent use of complex vehicle components, such as GPS navigational systems, onboard DVD players, and alternative fuel systems. Employment in this industry is expected to grow between 10 and 20 percent through 2012, and many workers are becoming specialized in certain aspects of vehicle repair. Increased demand from consumers with higher incomes who want multiple and more luxurious vehicles is balanced with the decreased demand from declining growth rates in the driving-age population and the manufacturing of more durable vehicles.

