
Profit Analysis Report

for

Electricity Now LLC

For the period ending 03/31/2009

Provided By

First Choice CPA Group

602-467-3304

www.firstchoicecpagroup.com

Report prepared for: Electricity Now

Industry: 23821 - Electrical Contractors

Revenue: \$1M - \$10M

Periods: 3 months against the same 3 months from the previous year

SCORECARD	
★☆☆☆☆	LIQUIDITY
★★★☆☆	PROFITS & PROFIT MARGIN
★★★★★	SALES
★☆☆☆☆	BORROWING
★★★☆☆	ASSETS
★☆☆☆☆	EMPLOYEES

LIQUIDITY



Generally, what is the company's ability to meet obligations as they come due?

Even though sales have risen this period, the company's liquidity position has actually declined. The overall liquidity position seems poor for two specific reasons. **First**, there is not enough money invested in cash and near-cash assets. This is an important item to note because the firm needs strength in its cash accounts; these are the assets that are used to pay the bills. **Also watch for the lower net margin -- it may be the case that increased sales dollars were eaten up by extra expenses.**

Second, the company appears to have an insufficient amount of total current assets as compared to its short-term obligations. What does this mean? It means that the company does not have strength in its cash accounts or in the other current assets that support these cash accounts. If this continues over time, it might make it difficult for the firm to pay its bills. In short, the firm needs to improve its performance in this area. Also remember that the "scores" in this area are based upon comparing the company's data to the data of other similar companies.

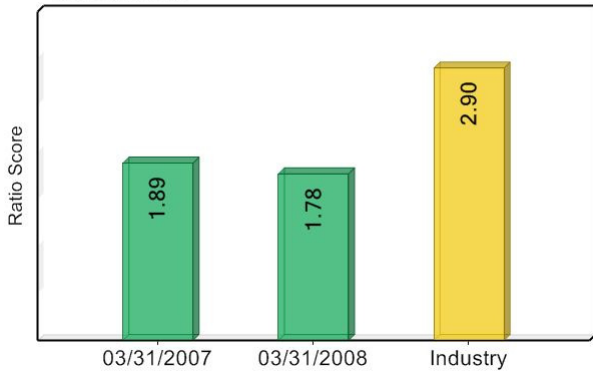
The company may not have the best overall results, but inventory days and accounts payable days are both in line with industry standards this period. Also, accounts receivable days is lower than that of many of the company's competitors, which is good since it reflects the firm's propensity to collect receivables and get cash quickly. Given some softness in liquidity, managers may want to focus on turning inventory more quickly, which is what the inventory days ratio measures.

Tips For Improvement

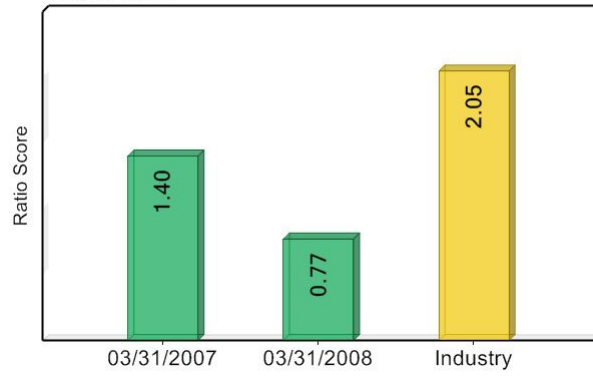
In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

- Eliminate or reduce unnecessary overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if those fixed costs which tend to stay the same over time can be lessened.
- 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 invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice.
- Set longer terms for Accounts Payable when possible and allowable by the vendor. For example, increase a 30 day payment window to 60 days.

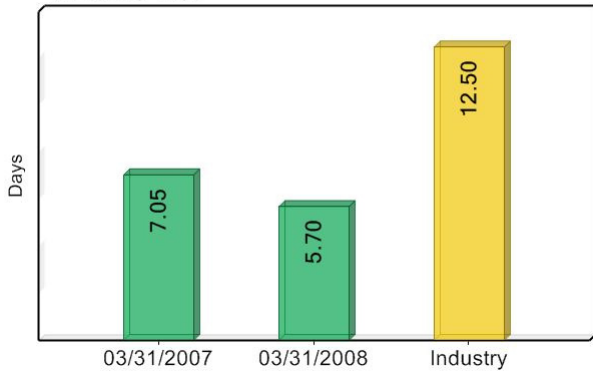
Current Ratio



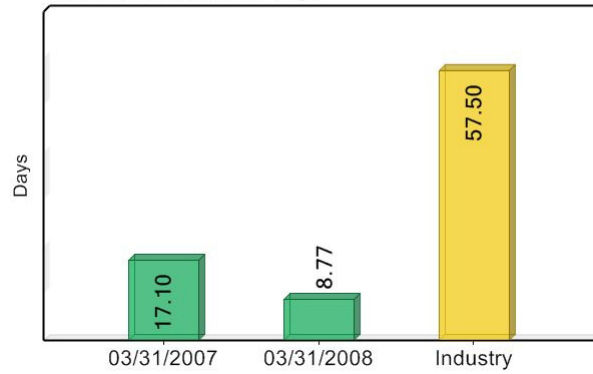
Quick Ratio



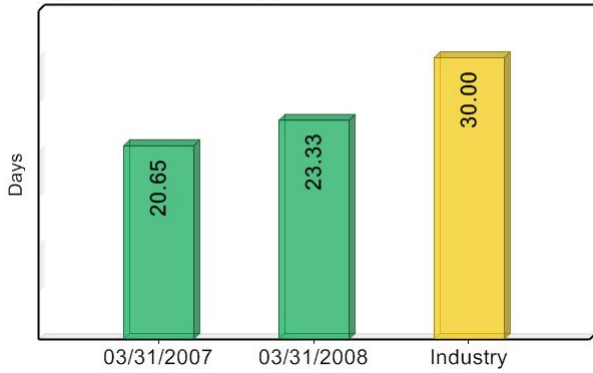
Inventory Days



Accounts Receivable Days



Accounts Payable Days



PROFITS & PROFIT MARGIN



Are profitability trends favorable in the company?

The company has several issues to address in the profitability area at this time. The first is its gross profit margin. Although sales rose by 8.27%, the company's gross profits stayed relatively flat. This is because costs of sales rose significantly relative to each sales dollar. The company's cost of sales seems out of line compared to what it was last period. Increased costs of sales lowered the gross margin. The company will want to watch the gross margin area, because changes here can cause even larger changes in net profitability.

This being said, the company's other concern should be with the net profit area. Net profits and net profit margins fell from last period because the company increased its operating costs. This means that, even though sales rose, both cents of net profit per sales dollar and total net profit dollars have fallen from last period. Companies do not usually mind seeing small increases in operating costs in the short run. However, in the long run, operating costs should help produce higher profits just like any other form of investment.

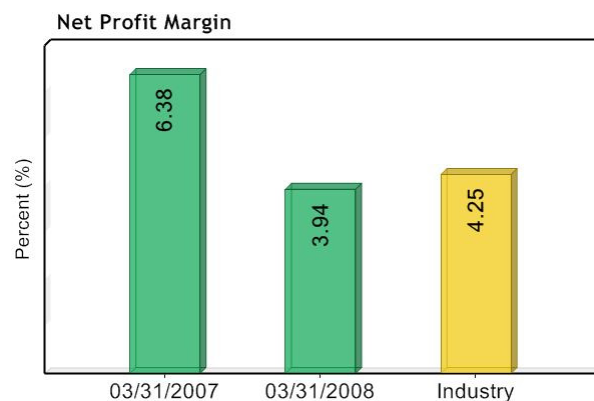
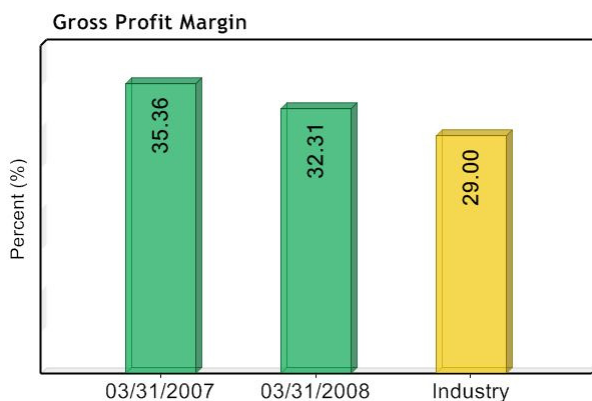
Despite these declines, the company still has a net profit margin that is about average for this industry; its performance is fair, which is illustrated in the graph area of the report. However, the company did perform better last period, and it would be good to see it improve from its current point.

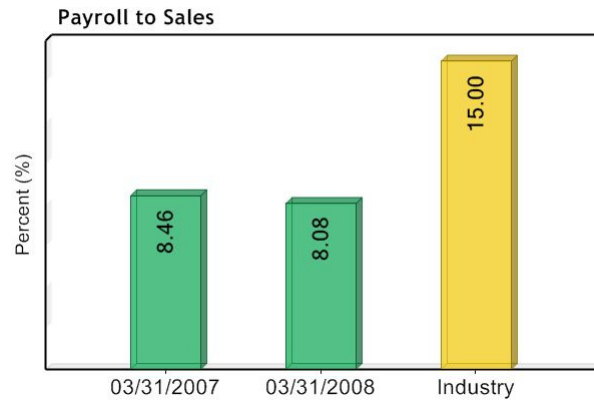
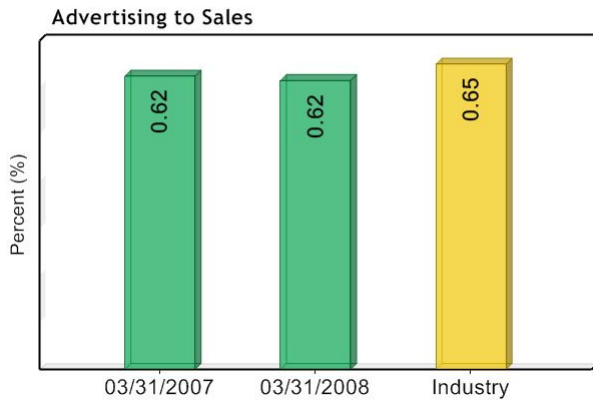
It may be the case that the company needed to spend more money on operating costs to support its growth. Managers may therefore want to focus on improving gross margins at this time. Gross margins are a crucial part of management work; in fact, they are often the best way to evaluate a company's managerial performance. Many times managers cannot control overhead or operating costs -- they are fixed. Managers should be able to control prices and direct costs by offering high-quality products that generate healthy gross margins.

Tips For Improvement

The following ideas to improve profitability might be useful and can be thought-through by managers:

- Find low cost, reliable suppliers that provide quality tools, materials, and possible volume discounts if applicable. By searching multiple qualified suppliers, the business is more likely to get the best prices through competition.
- 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.
- Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts) allowing management to have the ability to pull "variance reports."
- Increase prices selectively where possible. Done effectively, this can boost cash flow and liquidity. Good Income Statement management helps Balance Sheet performance.





SALES



Are sales growing and satisfactory?

The company has done a good job of increasing sales this period. Although sales increases by themselves do not typically indicate that much (companies are more interested in increasing profitability), increasing sales is certainly a good trend. It is favorable, though, that the company has increased sales while fixed assets have stayed relatively flat. This is a dynamic that should increase "asset turns" over time. It is less favorable that the company's employee base grew faster than sales this period. Over the long run, companies prefer to increase sales faster than the rate at which they hire people. For a deeper analysis of employee utilization, refer to the Employees section of this report.

BORROWING



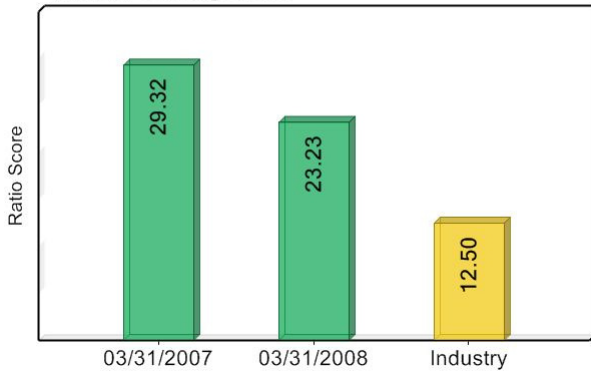
Is the company borrowing profitably?

In this case, the company increased total debt, but net profitability has actually slipped by 33.22%. Every cost item can be seen as an investment, from borrowed funds (loans) to people to postage stamps. Debt is particularly crucial because it carries risk (even short-term debt does). Unless improvements in profitability can be seen over time, it may be best to consider choosing not to invest in debt at this time.

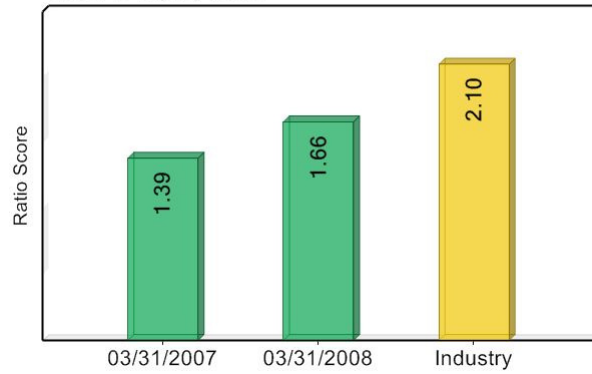
Another condition to be aware of is that net margins fell, as mentioned previously. Over the short term, it is acceptable to lose a little efficiency while adding debt. However, over the long term, even debt should improve profitability and profit margins.

Although the company has not received the best overall score in this area of the report, it is producing solid cash flow from its operations at least relative to its interest or cost of money expenses, which is a somewhat positive note. Perhaps the trend noted between debt and profitability is a one-time event? Or, it could be that this system is detecting early unfavorable trends that must be evaluated. Otherwise, please place less emphasis on the overall score in this area.

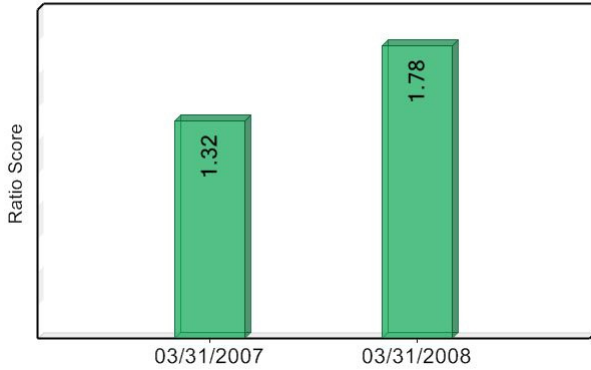
Interest Coverage Ratio



Debt-to-Equity Ratio



Debt Leverage Ratio



ASSETS

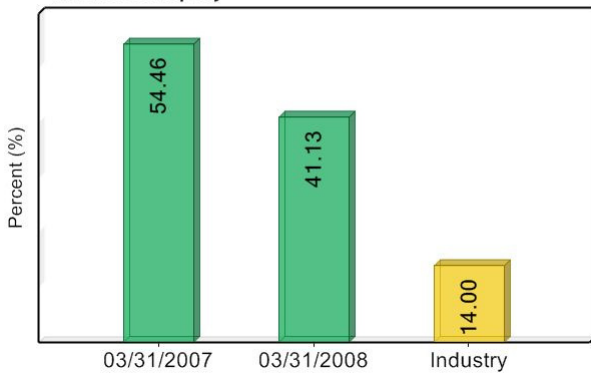


Is the company using gross fixed assets effectively?

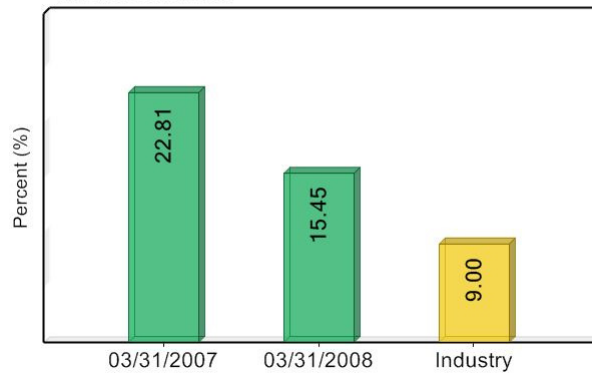
The results in this area are not very positive. Less profitability is moving through a relatively unchanged fixed asset base, which lowers performance in this area. Another way of saying this is the profitability per asset dollar statistic has fallen. This is not a favorable result, particularly because the net profit margin also fell. This means the company is less efficient in overall operations than it was last period.

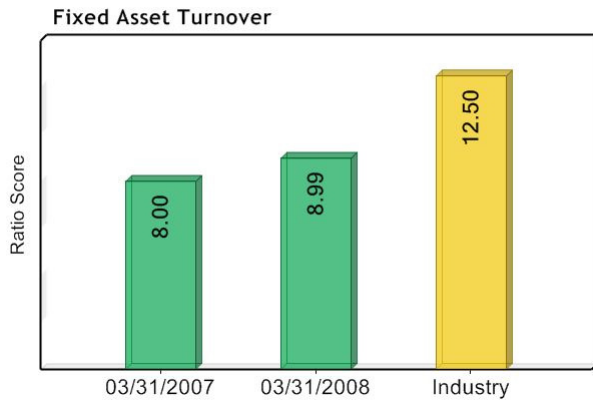
It is also important to highlight critical components that are positive. For example, the company has generated above average returns on equity and assets. While it is true that the changing relationship between operating profits and assets will guide long-term returns, in this case, real economic returns in assets and equity are excellent, a fact that needs to be balanced against the overall unfavorable trend.

Return on Equity



Return on Assets





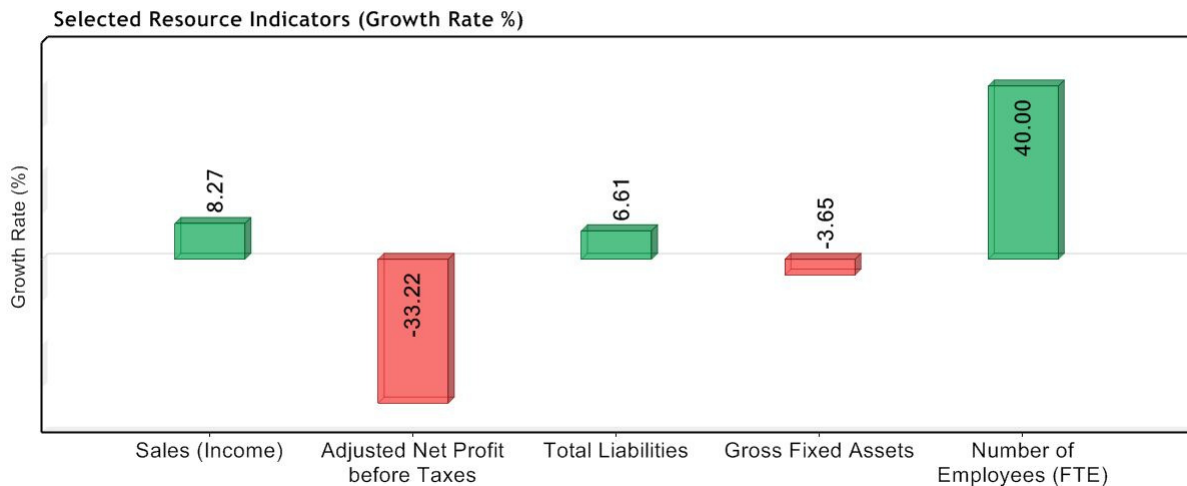
EMPLOYEES



Is the company hiring effectively?

The company has hired significantly more staff, but net profitability has fallen from last period. Companies prefer to see net profitability improve as employees are added. Unless this is a **deliberate strategy** to build the organization by hiring "infrastructure" staff, this is probably a situation that should be avoided. Managers **may** want to limit hiring until net profitability improves, or make sure they are only hiring people who will help improve net profitability. The scope of this analysis is limited, but it is still important to **note** unfavorable results that could threaten the company in the long run.

"Make everything as simple as possible, but not simpler." --- Albert Einstein



A NOTE ON SCORING: Each section of this report (Liquidity, Profits & Profit Margin, etc.) contains a star rating which measures the company's overall performance in the area at the time of the report's generation. One star indicates that the company is below average or may possibly need improvement in the area. Three stars indicate that the company is about average for the area. Five stars indicate that the company is above average or performing quite well in the area.

RAW DATA

	03/31/2007	03/31/2008
Income Statement Data		
Sales (Income)	\$240,133	\$260,000
Cost of Sales (COGS)	\$155,233	\$176,000
Gross Profit	\$84,900	\$84,000
Gross Profit Margin	35.36%	32.31%
Payroll / Wages / Salary	\$20,311	\$21,000
Advertising	\$1,500	\$1,600
Depreciation and Amortization	\$13,000	\$12,000
Interest Expense	\$1,000	\$1,000
Net Profit before Taxes	\$15,324	\$10,234
Adjusted Net Profit before Taxes	\$15,324	\$10,234
Net Profit Margin	6.38%	3.94%
EBITDA	\$29,324	\$23,234
Net Income	\$15,234	\$10,234
Balance Sheet Data		
Cash (Bank Funds)	\$8,500	\$12,000
Accounts Receivable	\$45,000	\$25,000
Inventory	\$12,000	\$11,000
Total Current Assets	\$72,000	\$85,000
Gross Fixed Assets	\$120,000	\$115,624
Total Assets	\$267,111	\$265,000
Accounts Payable	\$35,122	\$45,000
Total Current Liabilities	\$38,111	\$47,852
Total Liabilities	\$155,213	\$165,478
Total Equity	\$111,898	\$99,522
Number of Employees (FTE)	5.0	7.0

COMMON SIZE STATEMENTS

	03/31/2007	03/31/2008	Industry (2410)
Income Statement Data			
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	65%	68%	71%
Gross Profit	35%	32%	29%
Payroll / Wages / Salary	8%	8%	17%
Advertising	1%	1%	0%
Depreciation and Amortization	5%	5%	1%
Interest Expense	0%	0%	1%
Net Profit before Taxes	6%	4%	5%
Adjusted Net Profit before Taxes	6%	4%	5%
EBITDA	12%	9%	6%
Net Income	6%	4%	5%
Balance Sheet Data			
Cash (Bank Funds)	3%	5%	15%
Accounts Receivable	17%	9%	49%
Inventory	4%	4%	5%
Total Current Assets	27%	32%	79%
Gross Fixed Assets	45%	44%	46%
Total Assets	100%	100%	100%
Accounts Payable	13%	17%	19%
Total Current Liabilities	14%	18%	43%
Total Liabilities	58%	62%	57%
Total Equity	42%	38%	43%

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.78	1.80 to 4.00	-1.11%
Explanation: Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.			
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	0.77	1.30 to 2.80	-40.77%
Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.			
Inventory Days* = (Inventory / COGS) * 365	5.70 Days	5.00 to 20.00 Days	0.00%
Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.			
Accounts Receivable Days* = (Accounts Receivable / Sales) * 365	8.77 Days	40.00 to 75.00 Days	+78.08%
Explanation: This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.			
Accounts Payable Days* = (Accounts Payable / COGS) * 365	23.33 Days	15.00 to 45.00 Days	0.00%
Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.			
Gross Profit Margin = Gross Profit / Sales	32.31%	22.00% to 36.00%	0.00%
Explanation: This number indicates the percentage of sales revenue that is 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 future sales. Higher is normally better (the company is more efficient).			
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	3.94%	1.50% to 7.00%	0.00%
Explanation: 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 = Advertising / Sales	0.62%	0.20% to 1.10%	0.00%
Explanation: This metric shows advertising expense for the company as a percentage of sales.			

Payroll to Sales 8.08% 11.00% to 19.00% +26.55%
= Payroll Expense / Sales

Explanation: This metric shows payroll expense for the company as a percentage of sales.

Interest Coverage Ratio 23.23 5.00 to 20.00 +16.15%
= EBITDA / Interest Expense

Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.

Debt-to-Equity Ratio 1.66 1.20 to 3.00 0.00%
= Total Liabilities / Total Equity

Explanation: This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.

Debt Leverage Ratio* 1.78 N/A N/A
= Total Liabilities / EBITDA

Explanation: This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Return on Equity* 41.13% 8.00% to 20.00% +105.65%
= Net Income / Total Equity

Explanation: This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.

Return on Assets* 15.45% 6.00% to 12.00% +28.75%
= Net Income / Total Assets

Explanation: This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.

Fixed Asset Turnover* 8.99 5.00 to 20.00 0.00%
= Sales / Gross Fixed Assets

Explanation: This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

* These formulas have been scaled to approximate annual statistics.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER: Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (accountant, banker, financial planner, attorney, etc.).