Financial Score

My Software Development Firm Narrative Report

Industry:	511210 - Software Publishers
Revenue:	$10M - $50M
Periods:	12 months against the same 12 months from the previous year
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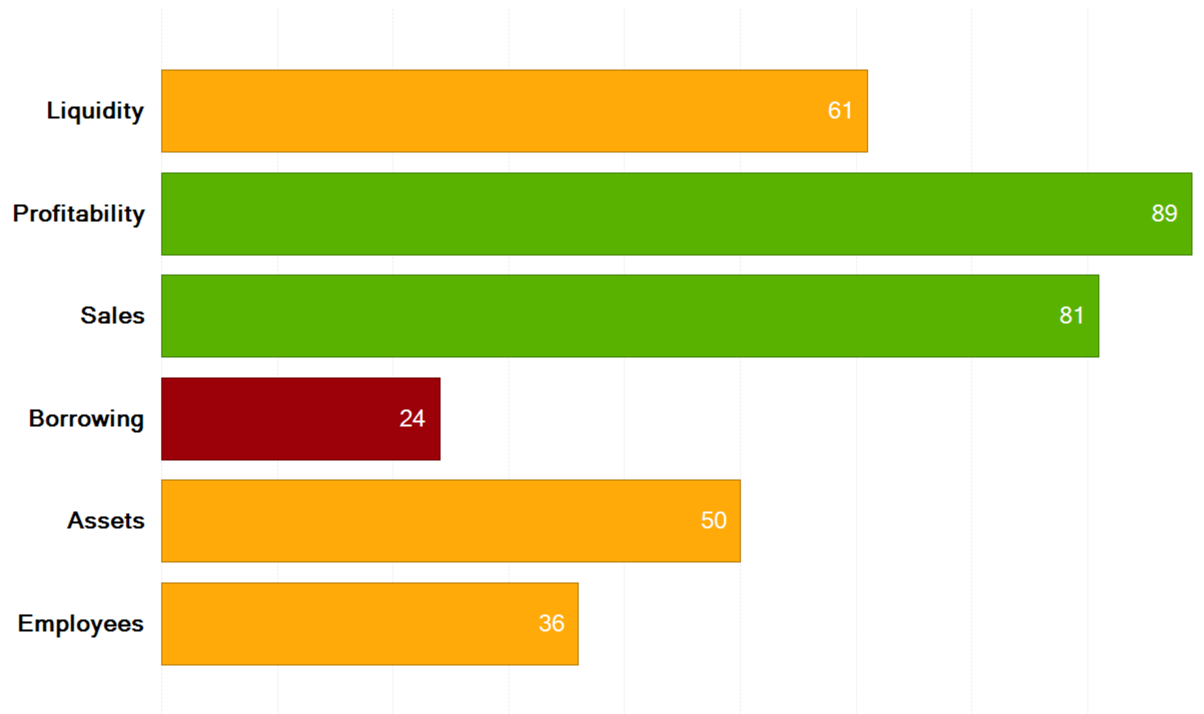
Report Summary



Liquidity 61 out of 100

A measure of the company's ability to meet obligations as they come due.

Operating Cash Flow Results

There is a positive relationship between profits and cash flow for this company, which is good. The company is generating strong cash flow from operations at the end of the period. Over the longer run, these types of results can help boost overall liquidity conditions, which will be discussed in more depth in the next section.

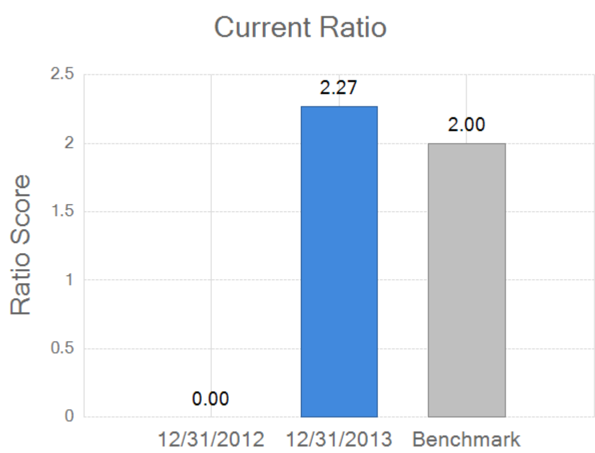
General Liquidity Conditions

Unfortunately, all too often in financial analysis, companies get so caught up in the details that they miss the big picture. That's what can be derived regarding this company from this report. The most important component of a company's short-term success is liquidity -- its ability to pay bills. Liquidity is a measure of the company's cash position. It keeps a company in business in the short run.

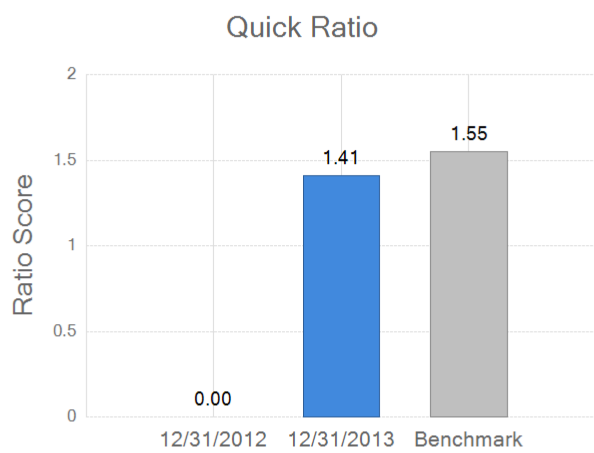
The company's liquidity position is fairly good -- about average or fair for the industry. The best part of the results is that this position has improved in several of the areas from last period. If profitability and revenue are continually moved higher, the company should be able to elevate its position over time. A good goal is to actually have better liquidity than the competition, so that resources can be steered towards investments that will help to leverage profits higher (assets, people, marketing).

The company has shown efficiency in collecting the money it is owed, as measured by its relatively low accounts receivable days. However, it should be mentioned that the company's inventory days statistic is higher than the industry standard. This may indicate some slowness for the company in converting inventory to sales, at least as compared to similar companies in the industry. In the future, the company may want to try to lower its inventory days to be more in line with normal standards.

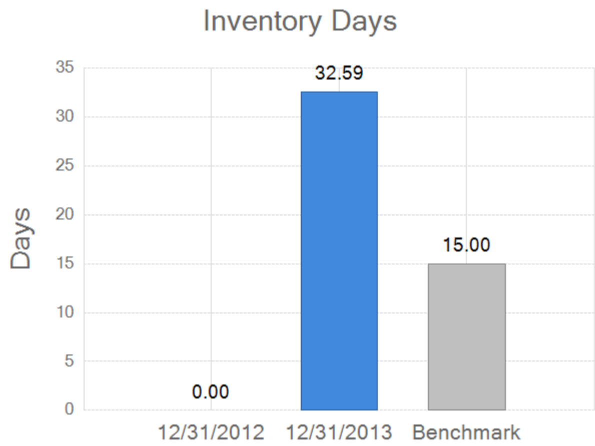
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.

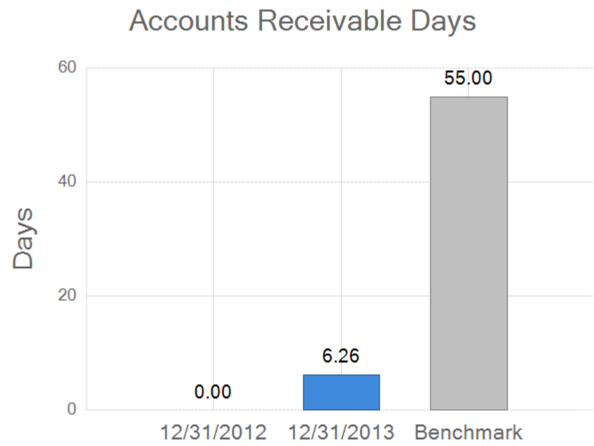


Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



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.





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.

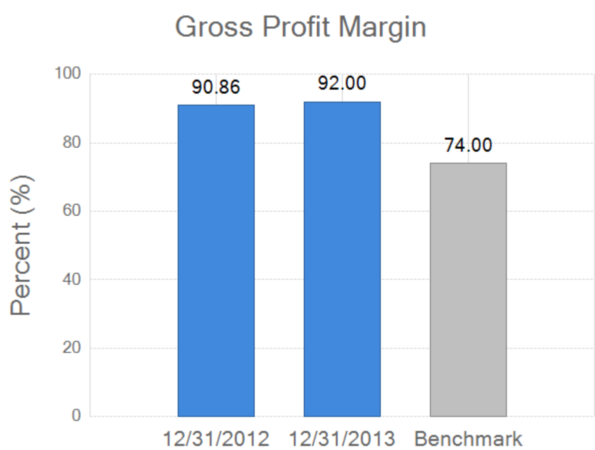
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.

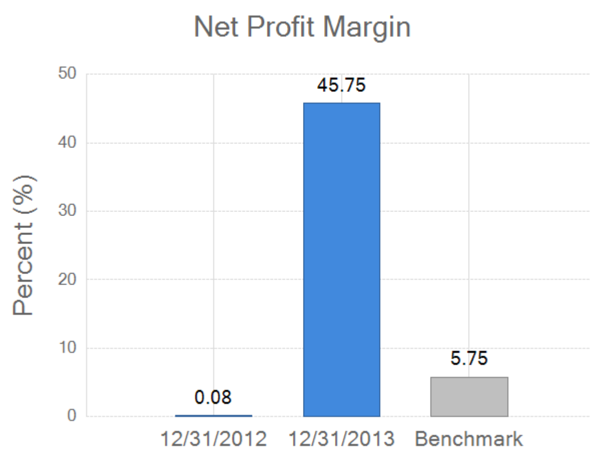
Profits & Profit Margin 89 out of 100

A measure of whether the trends in profit are favorable for the company.

A stronger net profit margin and higher sales have combined to improve this company's overall net profitability position significantly this period. Specifically, net profit margins have improved by 60,204.94% while sales have increased by 20.69%. The company is generating significantly more revenue than last period and managing it better by improving net margins -- an excellent combination. It looks like the company is pushing itself nicely within its "relevant range" -- the company's operating range for its current cost structure. This situation could also imply that the company may be able to push sales and profits higher concurrently in the future, which is not always easy to achieve.

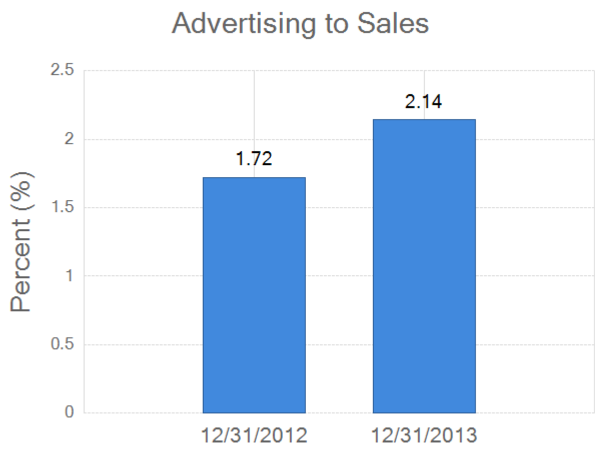
Overall net profitability here is excellent. This means that the net profit margin is good even compared to what similar companies are earning. This puts the challenge on managers to make sure that they are moving money back into the company to improve future profitability. As long as net margins don't slide too much, it is important to invest in the company to take advantage of this excellent strategic position. Managers should also make sure to put money aside to pay taxes on the extra earnings.



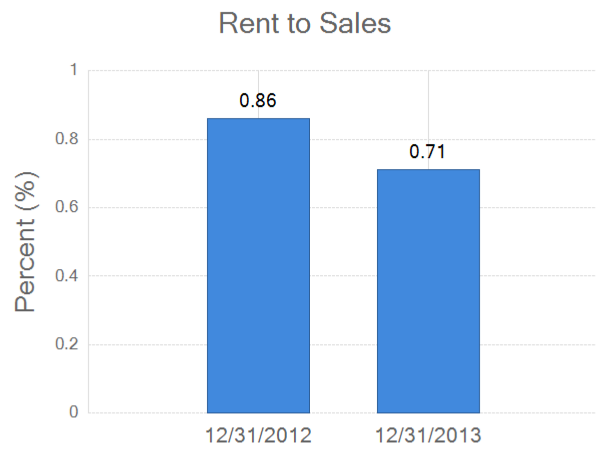


This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).

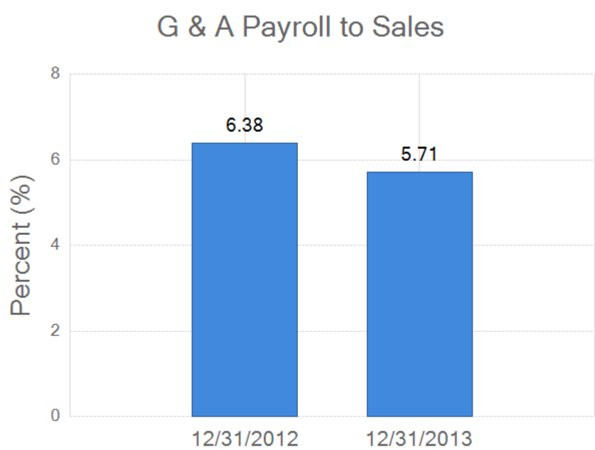
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.



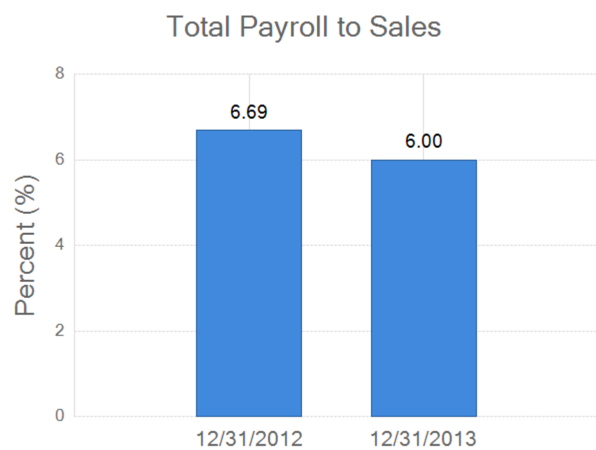
This metric shows advertising expense for the company as a percentage of sales.



This metric shows rent expense for the company as a percentage of sales.



This metric shows G & A payroll expense for the company as a percentage of sales.



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

Sales 81 out of 100

A measure of how sales are growing and whether the sales are satisfactory for the company.

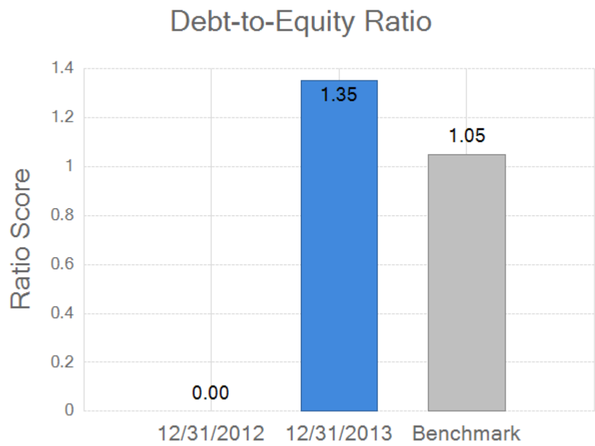
The company has done a solid job in the sales area. Sales have risen by 20.69%. In fact, sales are growing at a faster rate than the sales of most other companies in the industry. Sales "scores" are based upon industry comparisons, and this firm is doing well. Although it is true that sales numbers by themselves are not that important, it is certainly good to increase performance in this key area over time. It looks like a significant number of people have been hired, and a significant amount of fixed assets have been purchased as well. Managers may want to think about which factor(s) is/are most responsible for the sales increases. It may even be a factor that does not appear on the financial statements. It is important to identify what helps the company most in reaching its goals, so that the company can leverage important resources in the future.

Borrowing 24 out of 100

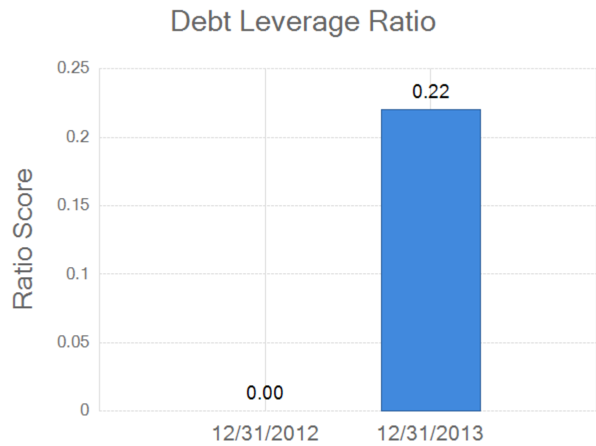
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

The positive component here is that profitability has improved by 72,681.82% since last period. However, the level of debt that the company is carrying has increased as well. In fact, total debt has risen faster than net profitability. Therefore, despite the improvement in profitability, this is a somewhat unfavorable result, specifically with regard to debt management. It is important to remember that the purpose of borrowing over the long run is to drive the rate of profitability improvement higher than the rate of debt increases. The debt added this period has not accomplished this task as of yet.

Interestingly, the company seems to have a moderate amount of debt on hand (as measured by its debt-to-equity ratio), yet it is not reporting any net interest expense. This would typically be unusual for most companies. The negative trend in this area would be bothersome if interest charges are to be accrued in future periods, which can only be assessed by reviewing the company's debt structure.



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.



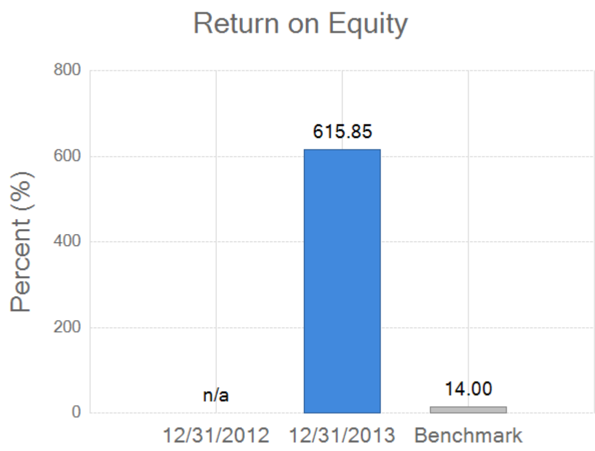
This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

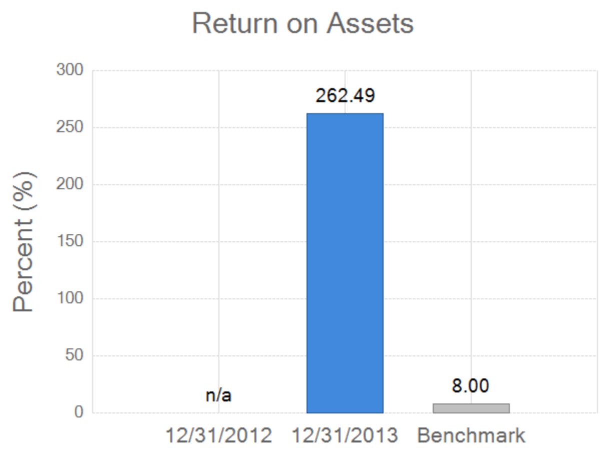
Assets 50 out of 100

A measure of how effectively the company is utilizing its gross fixed assets.

Results are mixed in this area and slightly negative. The company has improved its net profitability this period over last period, which is good. However, the fixed asset base has increased at a much faster rate than profitability. This means that a resource that costs money (assets) is increasing faster than net profitability. Over the long run, this kind of result could eventually depress profitability (although it has not yet in the current period: both the profit margins and overall liquidity have improved this period, which is positive). Remember that assets "eat" profits because they cost money, so trends are important in this area.

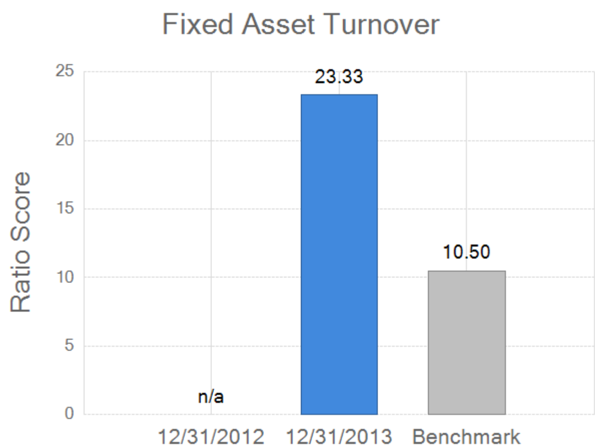
Finally, notice that the company generated a relatively strong return on its assets and equity this period. This is a positive result, because when these ratios are strong, the investors/owners seem to be getting a good return on investment.





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.

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.



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.

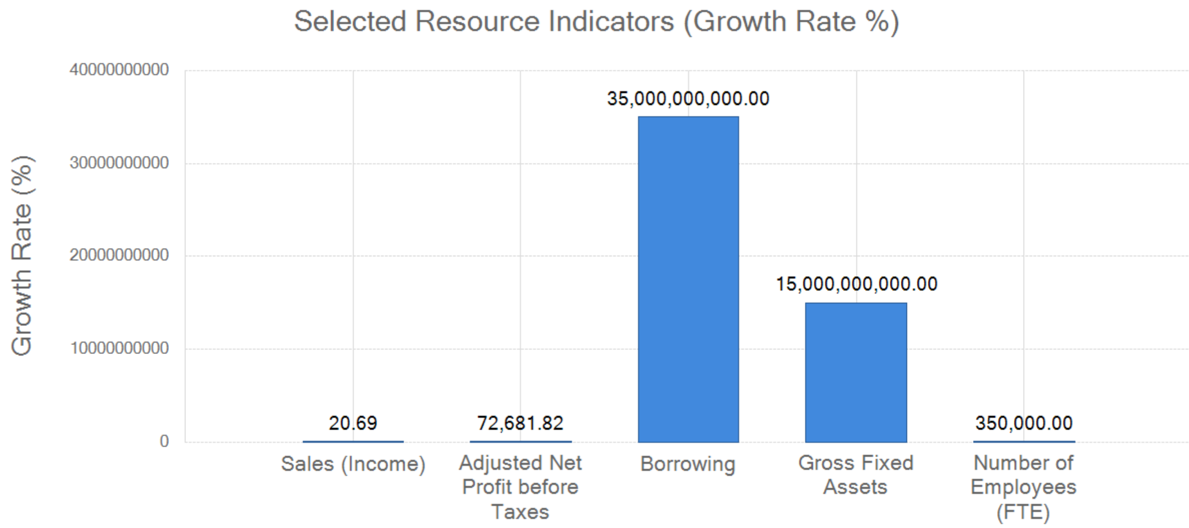
Employees **36 out of 100**

A measure of how effectively the company is hiring and managing its employees.

Results for this company need to be carefully considered. Net profitability has improved from last period as the company has added employees, which is good. It is less positive, though, that the employee base grew faster than profitability. Essentially, employee growth is exceeding the rate of profitability improvement. This is important because improved net profitability in a company tends to hide potential problems. Here, problems could occur if resources grow faster than net profitability in the **long run**.

At this time, managers **may** be reluctant to hire people in the short run, in order to give net profitability time to "catch up" to employees. This is particularly true given the significant asset purchases that were recently made. Of course, this analysis is just attempting to identify **potential** problems; this report cannot make any sweeping judgments about the use of employees in the company.

"It's almost impossible to overpay your highest performers." -- Jay Gould



This data is based on the two most recent available periods.

A NOTE ON SCORING: Each section of this report (Liquidity, Profits & Profit Margin, etc.) contains a numerical score/grade, which is a rough measure of overall performance in the area. Each grade represents a score from 1 to 100, with 1 being the lowest score and 100 being the highest. Generally, a score above 50 would be a "good" score and a score below 50 would be a "poor" score. The scores are derived by evaluating the company's trends, either positive or negative, over time and by comparing the company to industry averages for different metrics.

Industry-Specific Performance Ratios

What are the Key Performance Indicators for the business?

This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve operations.

Revenue Per Employee = Sales / Employees

Raw Data

Income Statement Data	12/31/2012	12/31/2013
Sales (Income)	$29,000,000	$35,000,000
Software Revenue	$20,000,000	$25,000,000
Support Revenue	$9,000,000	$10,000,000
Cost of Sales (COGS)	$2,650,000	$2,800,000
Depreciation (COGS-related)	$0	$0
Software Developer Wages	$500,000	$500,000
Direct Materials	$225,000	$200,000
Direct Labor	$90,000	$100,000
Gross Profit	$26,350,000	$32,200,000
Gross Profit Margin	90.86%	92.00%
Depreciation	$10,000	$10,000
Amortization	$0	$0
Overhead or S,G,& A Expenses	$25,740,000	$15,520,000
G & A Payroll Expense	$1,850,000	$2,000,000
Rent	$250,000	$250,000
Advertising	$500,000	$750,000
Utilities	$920,000	$920,000
Customer Service & Support Wages	$13,000,000	$1,600,000
Commission Expense	$9,220,000	$10,000,000
Other Operating Income	$0	$0
Other Operating Expenses	$578,000	$658,000
Software Development Costs	$578,000	$658,000
Operating Profit	$22,000	$16,012,000
Interest Expense	$0	$0
Other Income	$0	$0
Other Expenses	$0	$0
Net Profit Before Taxes	$22,000	$16,012,000
Adjusted Net Profit before Taxes	$22,000	$16,012,000
Net Profit Margin	0.08%	45.75%
EBITDA	$32,000	$16,022,000
Taxes Paid	$0	$0
Extraordinary Gain	$0	$0
Extraordinary Loss	$0	$0
Net Income	$22,000	$16,012,000
Balance Sheet Data	**12/31/2012**	**12/31/2013**
Cash (Bank Funds)	$0	$2,500,000
Accounts Receivable	$0	$600,000
Inventory	$0	$250,000
Other Current Assets	$0	$1,650,000
Total Current Assets	$0	$5,000,000
Gross Fixed Assets	$0	$1,500,000
Accumulated Depreciation	$0	$850,000
Net Fixed Assets	$0	$650,000
Gross Intangible Assets	$0	$0
Accumulated Amortization	$0	$0
Net Intangible Assets	$0	$0
Other Assets	$0	$450,000
Total Assets	$0	$6,100,000
Accounts Payable	$0	$0
Short Term Debt	$0	$1,500,000

Notes Payable / Current Portion of Long Term Debt	$0	$700,000
Other Current Liabilities	$0	$0
Deferred Revenue, Current	$0	$0
Total Current Liabilities	$0	$2,200,000
Notes Payable / Senior Debt	$0	$1,300,000
Notes Payable / Subordinated Debt	$0	$0
Other Long Term Liabilities	$0	$0
Deferred Revenue, Long Term Portion	$0	$0
Total Long Term Liabilities	$0	$1,300,000
Total Liabilities	$0	$3,500,000
Preferred Stock	$0	$0
Common Stock	$0	$0
Additional Paid-in Capital	$0	$0
Other Stock / Equity	$0	$0
Ending Retained Earnings	$0	$0
Total Equity	$0	$2,600,000
Total Liabilities + Equity	$0	$6,100,000
Number of Employees (FTE)	0.0	35.0

Common Size Statements

Income Statement Data	**12/31/2012**	**12/31/2013**	**Industry* (313)**
Sales (Income)	100%	100%	100%
Software Revenue	69%	71%	67%
Support Revenue	31%	29%	30%
Cost of Sales (COGS)	9%	8%	31%
Depreciation (COGS-related)	0%	0%	7%
Software Developer Wages	2%	1%	N/A
Direct Materials	1%	1%	7%
Direct Labor	0%	0%	7%
Gross Profit	91%	92%	69%
Depreciation	0%	0%	1%
Amortization	0%	0%	0%
Overhead or S,G,& A Expenses	89%	44%	59%
G & A Payroll Expense	6%	6%	47%
Rent	1%	1%	3%
Advertising	2%	2%	2%
Utilities	3%	3%	N/A
Customer Service & Support Wages	45%	5%	2%
Commission Expense	32%	29%	4%
Other Operating Income	0%	0%	0%
Other Operating Expenses	2%	2%	0%
Software Development Costs	2%	2%	N/A
Operating Profit	0%	46%	8%
Interest Expense	0%	0%	1%
Other Income	0%	0%	0%
Other Expenses	0%	0%	0%
Net Profit Before Taxes	0%	46%	8%
Adjusted Net Profit before Taxes	0%	46%	8%
EBITDA	0%	46%	9%
Taxes Paid	0%	0%	0%
Extraordinary Gain	0%	0%	0%

Extraordinary Loss	0%	0%	0%
Net Income	0%	46%	7%

Balance Sheet Data	**12/31/2012**	**12/31/2013**	**Industry* (313)**
Cash (Bank Funds)	N/A	41%	23%
Accounts Receivable	N/A	10%	34%
Inventory	N/A	4%	0%
Other Current Assets	N/A	27%	9%
Total Current Assets	N/A	82%	76%
Gross Fixed Assets	N/A	25%	32%
Accumulated Depreciation	N/A	14%	18%
Net Fixed Assets	N/A	11%	13%
Gross Intangible Assets	N/A	0%	0%
Accumulated Amortization	N/A	0%	0%
Net Intangible Assets	N/A	0%	0%
Other Assets	N/A	7%	11%
Total Assets	N/A	100%	100%
Accounts Payable	N/A	0%	11%
Short Term Debt	N/A	25%	0%
Notes Payable / Current Portion of Long Term Debt	N/A	11%	1%
Other Current Liabilities	N/A	0%	35%
Deferred Revenue, Current	N/A	0%	36%
Total Current Liabilities	N/A	36%	56%
Notes Payable / Senior Debt	N/A	21%	1%
Notes Payable / Subordinated Debt	N/A	0%	0%
Other Long Term Liabilities	N/A	0%	7%
Deferred Revenue, Long Term Portion	N/A	0%	11%
Total Long Term Liabilities	N/A	21%	22%
Total Liabilities	N/A	57%	79%
Preferred Stock	N/A	0%	0%
Common Stock	N/A	0%	2%
Additional Paid-in Capital	N/A	0%	4%
Other Stock / Equity	N/A	0%	1%
Ending Retained Earnings	N/A	0%	8%
Total Equity	N/A	43%	21%
Total Liabilities + Equity	N/A	100%	100%

*The industry common size figures shown above were taken from all private company data for companies with industry code 511210 for all years in all areas with yearly sales $10 million to $50 million.

Industry Scorecard

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	2.27	1.20 to 2.80	0.00%
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	1.41	0.90 to 2.20	0.00%
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	32.59 Days	5.00 to 25.00 Days	-30.36%
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	6.26 Days	40.00 to 70.00 Days	+84.35%
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.			
Gross Profit Margin = Gross Profit / Sales	92.00%	60.00% to 88.00%	+4.55%
Explanation: This number indicates the percentage of sales revenue that is not 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 each dollar of future sales. Higher is normally better (the company is more efficient).			
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	45.75%	1.50% to 10.00%	+357.50%
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	2.14%	N/A	N/A
Explanation: This metric shows advertising expense for the company as a percentage of sales.			
Rent to Sales = Rent / Sales	0.71%	N/A	N/A
Explanation: This metric shows rent expense for the company as a percentage of sales.			
G & A Payroll to Sales = G & A Payroll Expense / Sales	5.71%	N/A	N/A
Explanation: This metric shows G & A payroll expense for the company as a percentage of sales.			
Total Payroll to Sales = (Direct Labor + G & A Payroll Expense) / Sales	6.00%	N/A	N/A
Explanation: This metric shows total payroll expense for the company as a percentage of sales.			
Debt-to-Equity Ratio = Total Liabilities / Total Equity	1.35	0.60 to 1.50	0.00%

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 = Total Liabilities / EBITDA	0.22	N/A	N/A

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

Return on Equity = Net Income / Total Equity	615.85%	8.00% to 20.00%	+2,979.25%

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 = Net Income / Total Assets	262.49%	6.00% to 10.00%	+2,524.90%

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 = Sales / Gross Fixed Assets	23.33	7.00 to 14.00	+66.64%

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.

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.).