
Sample Restaurant

For the period ending 03/31/2008

Provided By

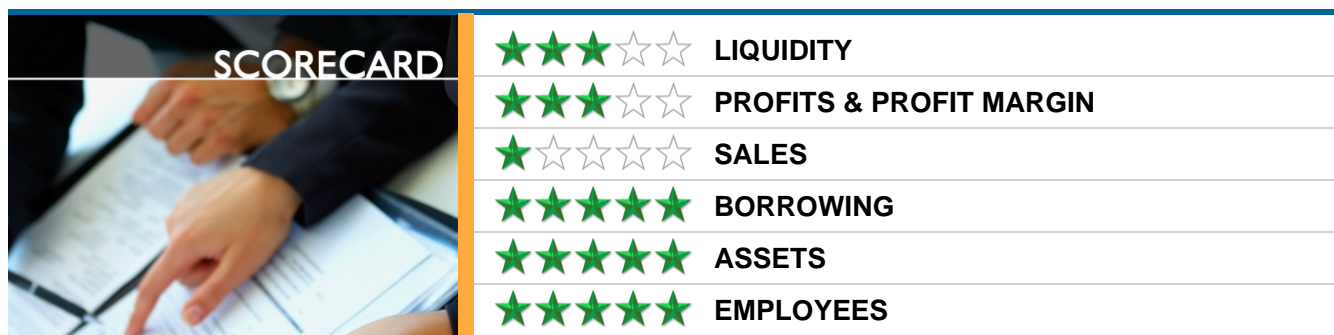


Disclaimer

4/22/2008

The information included in the following comparative financial evaluation is presented only for supplementary analysis and discussion purposes. Such information is presented for internal management use only and is not intended for third parties. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Report prepared for: Sample Restaurant
Industry: 72211 - Full-Service Restaurants
Revenue: \$1M - \$10M
Periods: One month against the same month from the previous year



LIQUIDITY



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

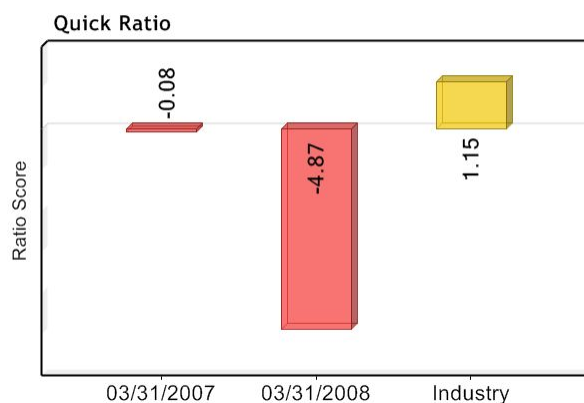
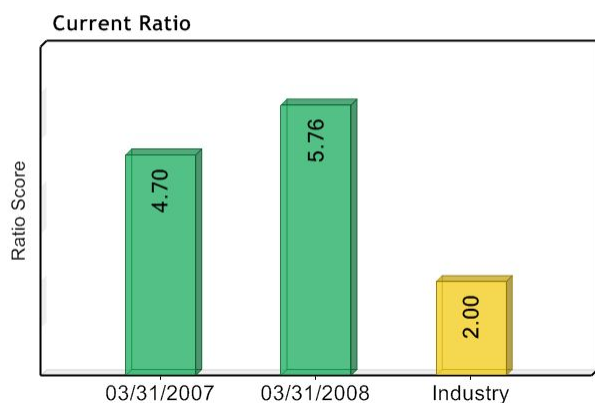
The firm's liquidity is both weak and strong at the same time. This contradiction is derived from non-cash asset accounts. If we include those types of assets in our analysis, then the company's liquidity position is outstanding and has improved. **If we exclude them, then the company's liquidity position is poor and has decreased.** Please examine the graph area of the report. Which way do we look at it? It is probably more conservative, but we want to look at liquidity without non-cash assets. Why? Because only cash can be used to meet obligations, not "current assets" generally. In conclusion, even though the company has plenty of current assets on hand at this point, it **might** be a good idea to shift resources up the Balance Sheet over time.

The firm has made a good start this period by earning more profit than last period. Net income margin also increased, which is critical to long-run liquidity.

Tips For Improvement

Here are some possible actions that management might consider if appropriate (these are ideas that might be thought about):

- Use reliable suppliers that can deliver when goods are needed. For example, suppliers deliver within one day can make it easier for the restaurant to keep inventory low and fresh, freeing up cash and preventing food from spoiling.
- Accept multiple forms of payment, such as credit and debit cards, to help cut down on the number of denied payments (bad checks). Watch the payment terms of credit cards since longer terms delay collection until much later.
- If cash is a constraint, try to establish a sufficient line of credit from the bank. The restaurant should obtain, but not necessarily use, as much financing as possible. If you decide to obtain external financing, structure as long-term rather than short-term in order to decrease monthly payments.
- Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.



Financial Indicator	03/31/2007	03/31/2008
Working Capital = Total Current Assets - Total Current Liabilities Explanation: This is the capital that finances continuing operations of the company. It is normally used to manufacture, sell, and receive payment for products and services. Working Capital shows the available liquidity resources after current obligations are met. The higher the better.	\$24,267	\$22,797
Accounts Receivable Days* = (Accounts Receivable / Sales) * 365 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.	0.00 Days	0.00 Days
Accounts Payable Days* = (Accounts Payable / COGS) * 365 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.	6.69 Days	5.29 Days
Inventory Days* = (Inventory / COGS) * 365 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.	7.76 Days	11.30 Days
Operating Cash Flow = Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) Explanation: Operating Cash Flow or Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a key indicator of a company's ability to generate cash to meet obligations. This indicates the positive cash flow that a company generates from continuing operations. The higher the better.	\$4,462	\$6,765
Operating Cycle = Accounts Receivable Days + Inventory Days Explanation: Operating Cycle represents the number of days between the time a product is added to inventory (if any) and the time when cash is actually received. The lower the better.	7.76 Days	11.30 Days

PROFITS & PROFIT MARGIN



Are profitability trends favorable in the company?

Even though sales fell from last period, it is good to see that the net profit margin and net profits (in dollars) have increased considerably. This means that the company is managing its expenses better. Basically, the company is doing more with less.

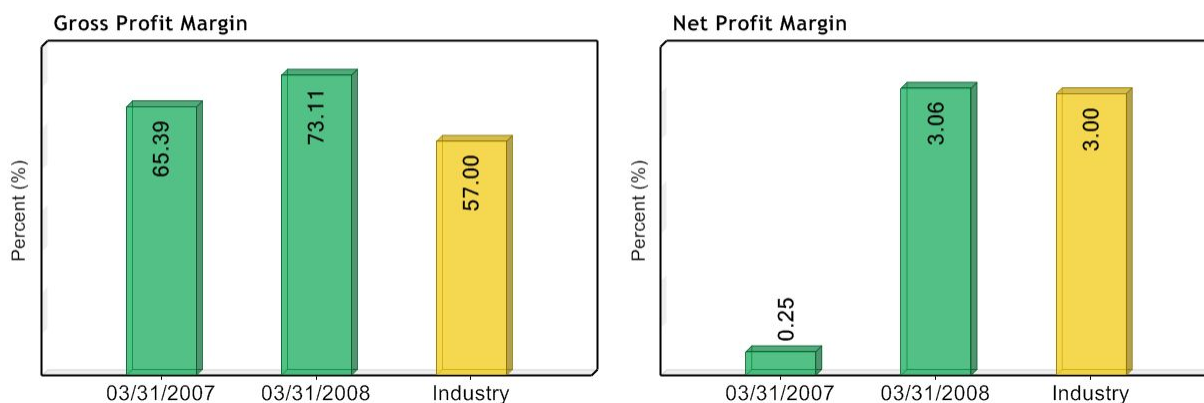
Managers have also been able to improve the gross margin, which helped offset the sales decline from last period. Even though sales declined, the improvement in gross margin helped maintain the company's gross profit in dollars. This means that managers saved money (built efficiency) on the cost of sales (direct costs). If the company can find ways to move sales higher and still maintain those better gross margins in the future, profits should increase significantly.

Both net profits and net margins are up from last period. The company is currently earning "average" profits for the industry in which it competes. A good long-term goal might be to raise sales slightly and keep up the good work on expense management. This should push the company up to higher levels within the industry.

Tips For Improvement

Good profit managers make continuous and small adjustments to improve their businesses. Managers might possibly consider the following to improve profits over time:

- Create a reputation for having quality service and good food in order to help generate referrals from customers. Word of mouth is often a free form of advertising for the restaurant.
- Create cost menus so that each menu item has a cost associated with it. This will help in figuring out what the profit margins are for each dish and which items should be pushed. If needed, adjust menu item marketing to improve profitability.
- Invest in activities that can yield positive returns. For example, menu advertising and routine employee training can often improve performance for the restaurant.
- 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.



Financial Indicator	03/31/2007	03/31/2008
Operating Cash Flow Margin = EBITDA / Sales	3.85%	6.32%
Explanation: This percentage indicates how much cash flow a company realizes from each dollar of sales. The higher the better.		
Return on Equity* = Net Income / Total Equity	N/A	N/A

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.

Labor Cost Ratio	14.23%	13.45%
= Payroll Expense / Sales		

Explanation: This measure shows what percentage of sales dollars are being spent on employees. The lower the better.

SALES



Are sales growing and satisfactory?

Sales have fallen, which has already been mentioned. As discussed in the Profitability section, sales changes in themselves are typically not vital analytical points. Profitability trends are more important. Still, the clear goal over time is to increase sales since the cost of doing business almost always goes up over the long run. Notice, too, that the fixed asset base has stayed relatively flat. This dynamic could harm profitability over time if sales continue to decline.

Financial Indicator	03/31/2007	03/31/2008
Sales per Employee*	\$39,745	\$42,849
= Sales / Total Employees (FTE)		
Explanation: This measure shows the annualized sales being generated per employee.		

Fixed Asset Turnover*	4.04	3.76
= 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.

BORROWING



Is the company borrowing profitably?

In this case, borrowing stayed about the same, yet net profitability improved significantly. It actually looks like borrowing may not have contributed to the improved profitability, since debt levels have stayed relatively flat. On the other hand, there is always the possibility that this period's improvement in profitability was the result of past borrowing activities. The general summary is that it is important to assess the causes of improved profitability to know what resources to lever in the future.

The improved profitability is favorable; now the question is whether or not to borrow. The answer depends on whether increased debt (or the assets bought with the debt) will improve net profitability in the future. In the final analysis, the company should carefully work through a good cash flow and profitability forecast to determine the best course of action.

Financial Indicator	03/31/2007	03/31/2008
Debt-to-Equity Ratio	N/A	N/A
= 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*	7.62	4.92
= Total Liabilities / EBITDA		

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

Interest Coverage Ratio	2.27	5.26
= 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.

ASSETS



Is the company using gross fixed assets effectively?

This period, profitability improved significantly, but asset levels stayed relatively flat. This means that: 1) profitability was able to improve without adding assets, and 2) the company **may** not need any more assets to continue to improve profitability at this specific time. In other words, the company may be able to grow a bit more with the level of assets currently in place. This should also continue to help improve net margins, which also improved this period. An improvement in net margins is an indication of improved efficiency as the company has reduced the asset base.

Financial Indicator	03/31/2007	03/31/2008
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Return on Assets*	0.89%	10.09%
= 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.

Asset Composition	7.81%	7.09%
= Total Current Assets / Total Assets		

Explanation: This ratio measures the proportion of current assets to total assets. A lower ratio would indicate that a company has significant investments in long-term assets and less flexibility in meeting short-term obligations.

EMPLOYEES

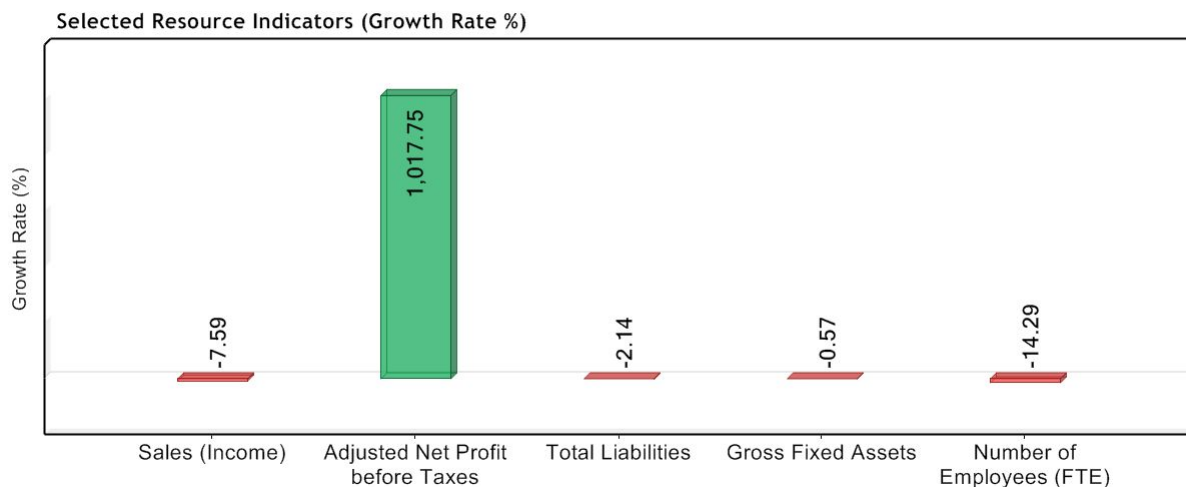


Is the company hiring effectively?

Net profitability improved significantly from last period, although the company has fewer employees and about the same level of fixed assets. Essentially, this means that the company has managed existing resources more effectively. It also means that the key to success (at least in the short run) may be "off the books" -- it may involve factors other than assets or employees. Managers may want to think about how the company was able to improve net profitability without significantly increasing assets or employees; this may be the way to expand in the short run since it doesn't involve the "major" types of expenses. This leads to

another key piece of analysis: this report cannot tell **why** conditions have improved; managers need to find the **cause and effect** links from inside the company. However, if managers can continue to improve net profitability with fewer people, it will be particularly important to carefully plan out and consider the business need and justification for any additional hires brought in at this time.

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



Financial Indicator	03/31/2007	03/31/2008
Return on Labor = Adjusted Net Profit before Taxes / Payroll Expense Explanation: This indicator represents the percentage of profit generated from each dollar invested in employee compensation.	1.78%	22.74%
Profit per Employee* = Adjusted Net Profit before Taxes / Total Employees (FTE) Explanation: This indicator represents the annualized amount of profit that each employee is generating.	\$100	\$1,310

* 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.

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)	\$115,922	\$107,122
Cost of Sales (COGS)	\$40,115	\$28,808
Gross Profit	\$75,807	\$78,314
Gross Profit Margin	65.39%	73.11%
Payroll / Wages / Salary	\$16,500	\$14,404
Depreciation	\$2,204	\$2,204
Interest Expense	\$1,965	\$1,286
Net Profit before Taxes	\$293	\$3,275
Adjusted Net Profit before Taxes	\$293	\$3,275
Net Profit Margin	0.25%	3.06%
EBITDA	\$4,462	\$6,765
Net Income	\$293	\$3,275
Balance Sheet Data		
Cash (Bank Funds)	(\$495)	(\$23,343)
Accounts Receivable	\$0	\$0
Inventory	\$10,234	\$10,707
Total Current Assets	\$30,828	\$27,587
Gross Fixed Assets	\$344,029	\$342,051
Total Assets	\$394,791	\$389,346
Accounts Payable	\$8,827	\$5,013
Total Current Liabilities	\$6,561	\$4,790
Total Liabilities	\$408,122	\$399,402
Number of Employees (FTE)	35.0	30.0

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.).