
Financial Benchmarking Report for
Fairpeace Engineering

Undertaken by
Smythe & Co Chartered Accountants

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about this report

this is a financial benchmark report for your business

The information value of your business's financial results and ratios, considered in isolation, is inherently limited. Financial benchmarking is much more powerful, involving an analysis of how your business's financial performance compares to that of a chosen sample of companies ("your comparator group"). It involves the production of key financial ratios for your business, based upon data you have submitted.

The results of this comparator analysis are shown as percentiles, as follows:

- (a) the weakest businesses are shown at or below the 5th percentile;
- (b) weak businesses are shown at or below the 25th percentile;
- (c) average businesses are shown between the 25th and 75th percentile;
- (d) strong businesses operate at or above the 75th percentile; and
- (e) the strongest businesses are at or above the 95th percentile.

Benchmarking and ratio analysis is not an end in itself. It is vital that this report is analysed and interpreted with the help of Samantha Hope, who will be able to assist you in determining causal relationships between management action and performance results. Samantha will help you use this information to plan, control and make decisions that will significantly drive your business forward.

Benchmarking reports should be prepared regularly, at a minimum annually, on a consistent basis so that trends can be highlighted and changes investigated.

Your performance results are presented graphically and compare your return on capital and investment, profitability, productivity, short-term liquidity, gearing and long-term solvency over time (the trends in your business), relative to your comparator group.

In summary, financial benchmarking provides significant opportunities for business improvement. Also, speak to your accountant about undertaking a comprehensive benchmarking of your business, which takes a more holistic approach and examines all aspects of operational performance – not just financial – and, therefore, provides even greater insight into how to improve and grow your business.

about the graphs

Where previous years' data is available, a trend analysis of key performance measures is presented in simple vertical bar charts. This will form the first part of the report. It demonstrates the financial performance of your business over time, relative to the average performance of the market.

The sections that follow present a series of more detailed financial ratios, relevant to the aspect of the business being examined, in horizontal bar charts. These charts show the relative position of your business for each financial ratio against your comparator group, highlighting areas of relative strength and weakness. The longer the horizontal bar on the chart, the better your relative performance. For clarity, performance is shown in different colours. The median result is also indicated. The scorecards built around the chart provide a tabulated version of these results, showing your score for each ratio and giving a more precise indication of your relative performance.

If information is not available for a given measure, then no results will be generated on the bar charts, although the ratio label itself will still be shown.

the headline ratio graphs

The headline ratio graphs contain both graphical and statistical representation of your benchmarking results. The results are shown in percentiles and the length of the horizontal bar graph indicates your performance against the chosen sample size. Each of the ratios is listed in the main column to the left, with their corresponding values being GBP, # (number) or % (percentage), as appropriate.

relative

The 'relative' figure expresses your performance against the selected sample, i.e. your relative is calculated as a percentage score given your position in the database. If this column returns a null result, it indicates that the sample size is too small to generate a result.

your actual

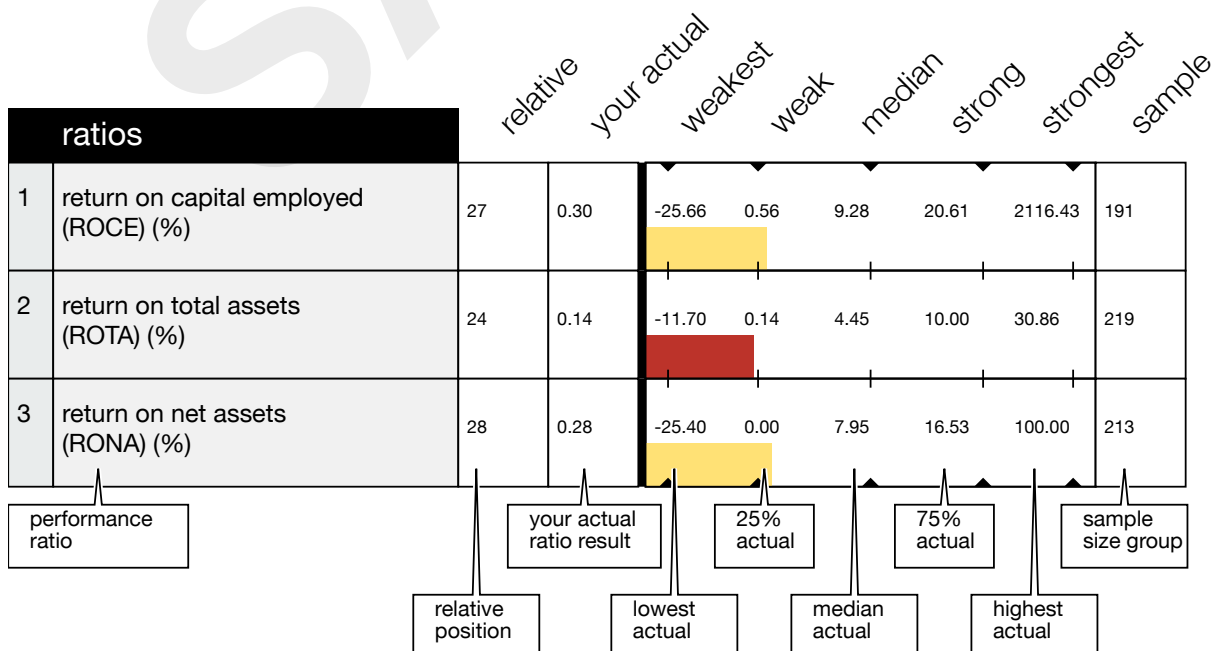
This is the actual calculation resulting from the input data provided for each of the measures. If this column returns a null result, it indicates that either one or more of the required fields to calculate this ratio were not completed. Consequently, the 'relative' column will also return a null result.

statistical results

The figures that appear in the 'weakest' and 'strongest' columns represent the 5th and 95th percentile results achieved by businesses within the sample group size. The 'weak' and 'strong' values represent the actual scores achieved by the 25th and 75th percentile businesses respectively. The 'average' result represents the median point of scores within the group.

sample

The 'sample' column indicates the sample group size generated for comparison, based on the selection criteria that have been applied.



■ additional comments

The company has experienced a dramatic decline in its ROCE (%) over the 4 year period to 2007/8. In 2007/8, the business achieved a ROCE(%) of -2.4%, compared to 7.8% in 2004/5.

The deterioration in financial performance is caused by a significant fall in profitability. In the current year, the business had an operating loss of £27K.

There are 2 factors in this decline in profitability:

- a dramatic fall in sales (£) in 2007/8; and
- gross margin erosion and increases in indirect costs.

Productivity ratios suggest that the business manages its staff well, but that it should consider ways of obtaining a greater return from its fixed asset base.

Measures of short-term liquidity and working capital management indicate that the business could improve its relative performance to exceed its current position which is, at best, average.

Of greater concern is the high level of gearing and the poor interest cover, which is a long-term financial risk.

This benchmark report is the start of a process and suggests that there are a number of areas which require further investigation.

We would be happy to explore further the ways in which our firm can help you investigate and resolve these matters.

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■ benchmark information

your details

Below are the details of your business that have been used as the basis for the benchmark that has been carried out. If there are any inaccuracies, please inform your accountant.

business details

business name	Fairpeace Engineering
our reference no.	30359
contact name	Robert S Fairpeace
contact job title	Managing Director
address	Lyon Industrial Park Enterprise Road Salford Manchester M19 1SR United Kingdom
telephone	0161 112 223

profile

financial year	2007/08
turnover (GBP K)	2552.35
no of employees (FTEs)	29
NACE code (2003)	29.14
business description	Mechanical Engineering and machinery

benchmark criteria

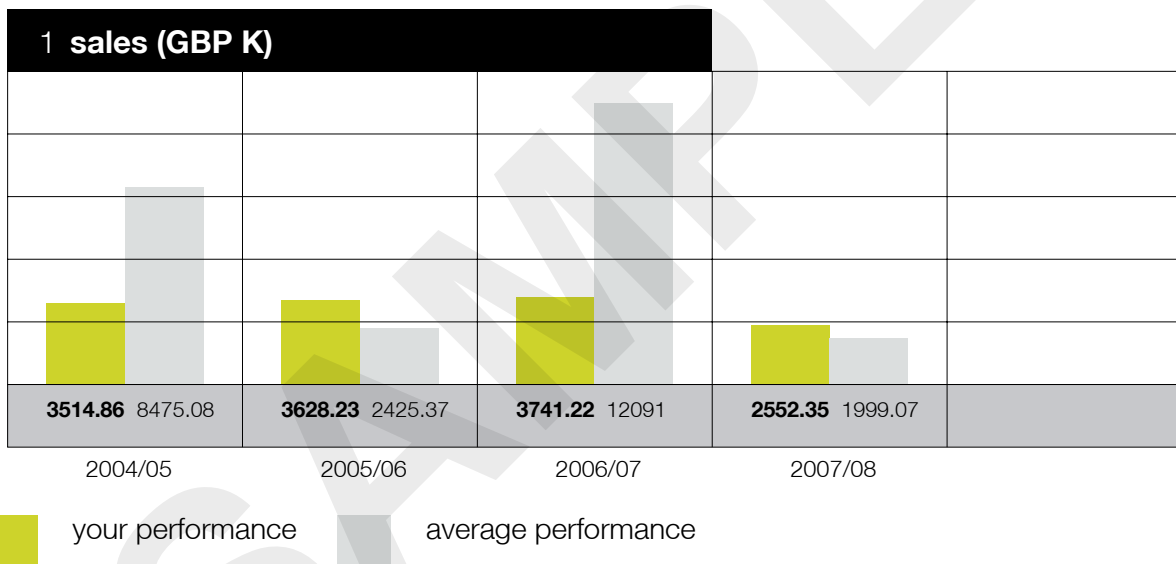
country(s)	United Kingdom
region(s)	South East, East Midlands, Scotland, North West, London, South West, Northern Ireland, North East, Midlands, Wales, Yorkshire & The Humber, Eastern, West Midlands
employees	Between 10 and 50
turnover (GBP K)	Between 2000 and 3000
business area(s)	Manufacture of Machinery and Equipment Not Elsewhere Classified
NACE code(s)	Not Specified
sample size	161

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■ trend analysis

how does your performance compare over time?

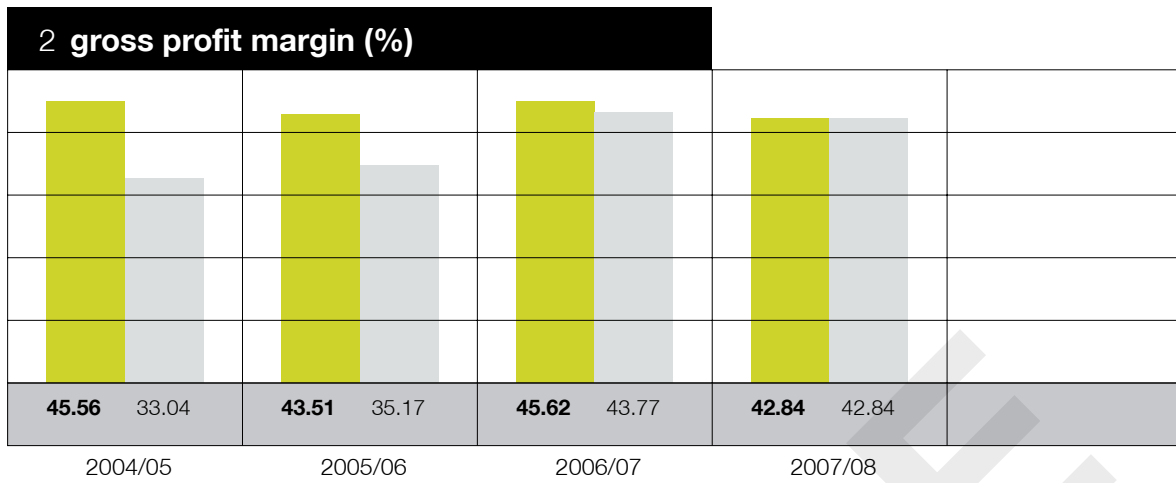
Financial ratios, considered in isolation, are of limited information value. This section of the report, therefore, demonstrates how your business's financial results have changed over time, relative to other businesses in the market. This trend analysis will help you to identify areas of improvement and, more importantly, those areas which require management attention. Discuss the results with your accountant, who will help you interpret the information and decide what action is required to manage your business more effectively.



ratio definition

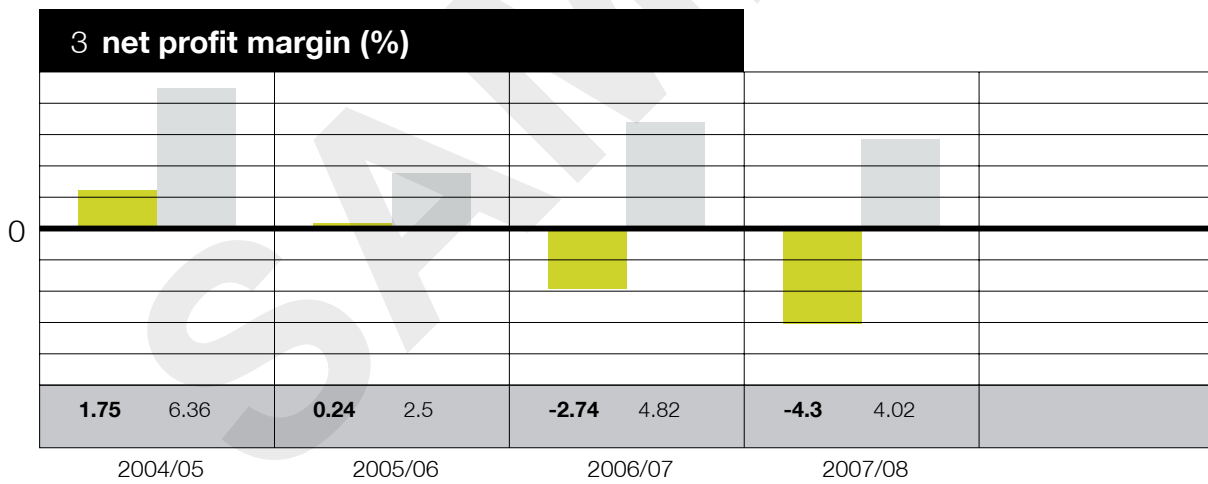
- ¹ sales (GBP K): this illustrates the increase/decrease in total sales of your business over time. It provides an indication of the ability of your business to grow sales in the future. Q3

■ trend analysis



ratio definition

- 2 gross profit margin (%): this indicates the gross margin achieved on goods and services sold in each period. $(Q3 - Q4) / Q3 \times 100$



■ your performance ■ average performance

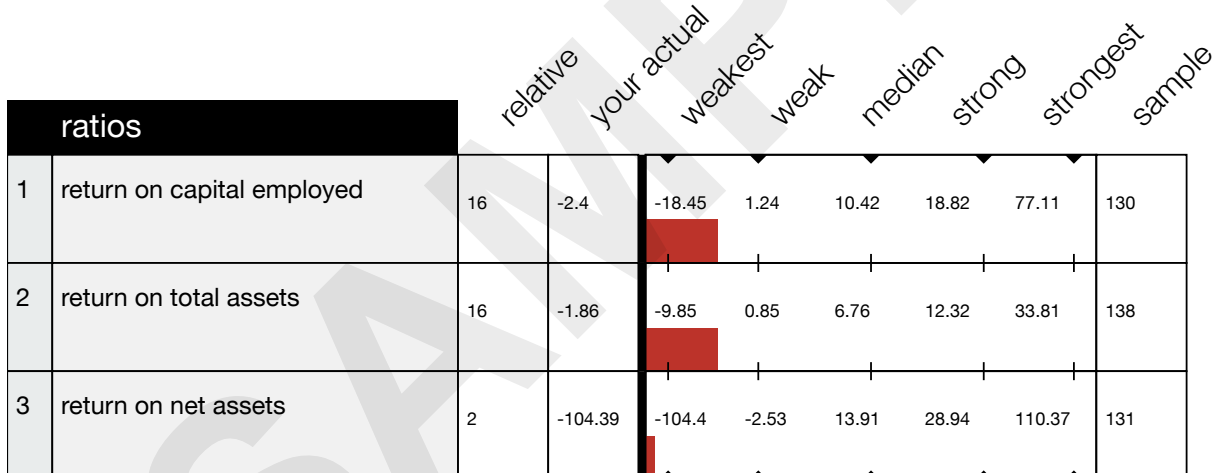
ratio definition

- 3 net profit margin (%): net profit represents the profit before tax and, therefore, changes in net profit margin highlight changes in your business's overall profitability, after taking into consideration changes in gross margins and overheads. $Q7 / Q3 \times 100$

headline ratio

how good is your return on capital and investment?

The return you generate on your investment in the business is a key measure of financial performance. A question to consider in this regard is ‘would you get a better or worse return from alternative investments?’ The primary ratio is the return on capital employed (ROCE). ROCE and the factors involved (profit, capital employed, total assets or net assets) can be progressively analysed into more detailed profitability and productivity ratios to highlight the influence of sales performance, cost control and the efficient use of the business assets.



ratios explained

capital & investment

1 return on capital employed

$$PBIT / \text{capital employed (i.e. shareholders' funds + long-term liabilities + short-term debt)} \times 100$$

Return on capital employed is a key financial ratio and indicates the % return generated on the total capital invested in your business, a good overall measure of management effectiveness.

$$(Q6 + Q7) / (Q17 + Q18 + Q19 + Q20) \times 100$$

2 return on total assets

$$PBIT / \text{total assets (i.e. fixed and current assets)} \times 100$$

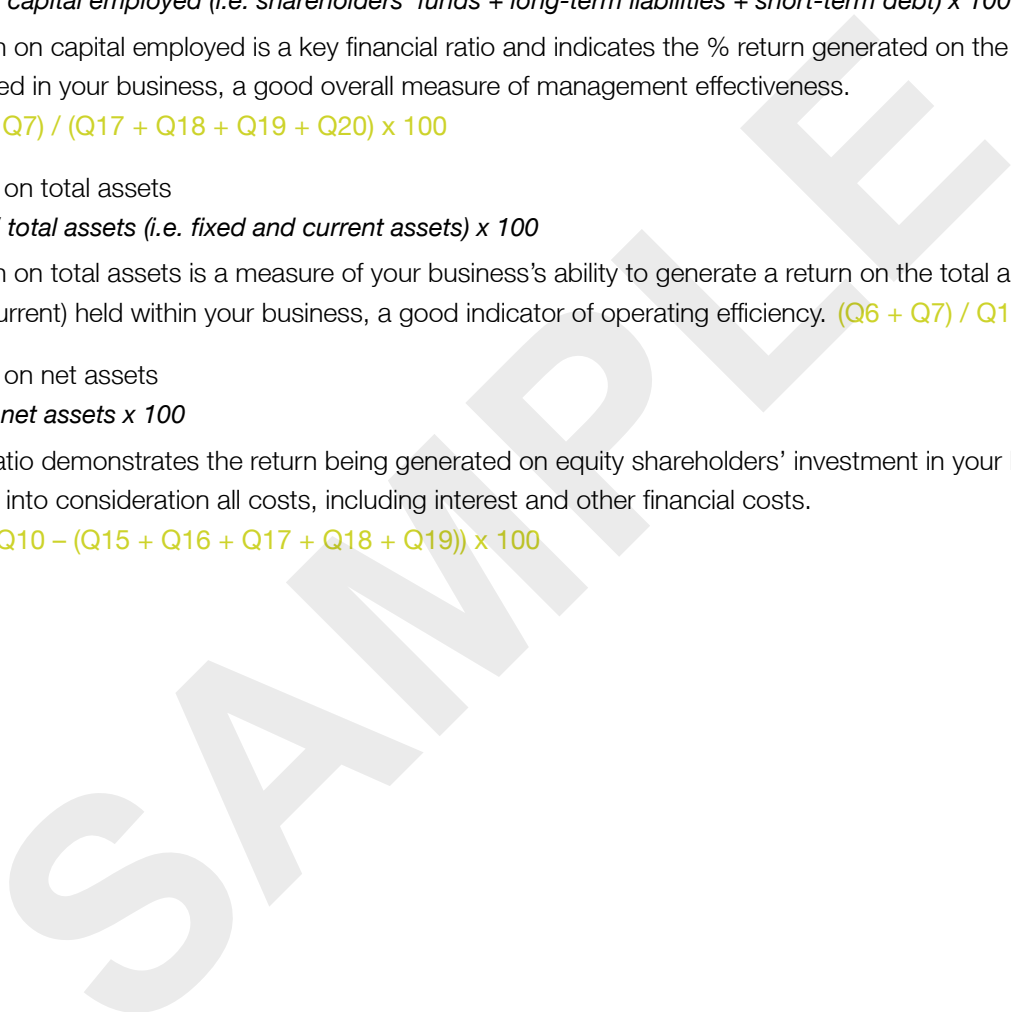
Return on total assets is a measure of your business's ability to generate a return on the total assets (fixed and current) held within your business, a good indicator of operating efficiency. $(Q6 + Q7) / Q10 \times 100$

3 return on net assets

$$PBT / \text{net assets} \times 100$$

This ratio demonstrates the return being generated on equity shareholders' investment in your business, taking into consideration all costs, including interest and other financial costs.

$$Q7 / (Q10 - (Q15 + Q16 + Q17 + Q18 + Q19)) \times 100$$



headline ratio

are you profitable enough?

This section will allow you to determine the relative profitability of your business. It will focus your attention on sales performance, cost control, operating efficiency and staff management. With the assistance of your accountant, it will help you prioritise further investigations, which will generate ideas to improve profitability.

ratios		relative	your actual	weakest	weak	median	strong	strongest sample	
4	gross profit margin	66	42.84	7.08	28.48	37.35	46.24	72.16	103
5	operating profit margin	16	-1.05	-8.63	-0.18	2.64	6.91	19.49	99
6	pre tax profit / total turnover (%)	8	-4.3	-8.63	-0.36	3.09	6.69	17.8	145
7	profit per employee	13	-925.86	-6370.3	593.78	2753.69	7108.52	21374	141
8	fixed costs as percentage of sales	22	43.9	76.98	43.9	32.41	23.34	4.98	99

ratios explained

profitability

4 gross profit margin

$$\text{gross profit} / \text{turnover} \times 100$$

This highlights the profit made on selling goods and services, after deducting direct costs of sale from the selling price. $(Q3 - Q4) / Q3 \times 100$

5 operating profit margin

$$\text{operating margin} / \text{turnover} \times 100$$

Operating profit is profit after deducting all operating costs of your business. Operating margin (%) is, therefore, a key measure of management's ability to run your business profitably, taking into consideration direct costs of sales and indirect overheads. $Q5 / Q3 \times 100$

6 pre tax profit / total turnover (%)

$$\text{PBT} / \text{turnover} \times 100$$

The use of profit before tax in this ratio results in a measure of overall profitability, after taking into consideration all sources of income and all costs, including non-trading and exceptional non-recurring items. $Q7 / Q3 \times 100$

7 profit per employee

$$\text{operating margin} / \text{No of FTE employees}$$

This ratio is an indicator of employee productivity. It is a particularly useful measure of staff utilisation, when comparing the ratio to those of other businesses in the same industry. $Q5 / Q22$

8 fixed costs as percentage of sales

$$\text{total fixed costs} / \text{turnover} \times 100$$

This is a measure of operational gearing. Businesses, which have high fixed costs relative to variable costs, are said to have high operational gearing. Operational gearing matters because it indicates potential volatility in future profits, when levels of activity change. Businesses with high operational gearing will have profits which rise disproportionately from a given increase in turnover, and conversely, which fall disproportionately when turnover declines. $((Q3 - Q4) - Q5) / Q3 \times 100$

input data

	Latest accounting yr (2007/08)	Prev yr 1 (2006/07)	Prev yr 2 (2005/06)	Prev yr 3 (2004/05)	
1	local turnover (GBP K)	2552.35	3741.22	3628.23	3514.86
2	export turnover (GBP K)	0	0	0	0
3	total turnover (GBP K)	2552.35	3741.22	3628.23	3514.86
4	cost of sales (GBP K)	1458.84	2034.58	2049.43	1913.58
5	operating profit (GBP K)	-26.85	-10.74	78.88	93.82
6	interest payable (GBP K)	82.93	91.87	70.06	32.77
7	profit before tax (GBP K)	-109.78	-102.59	8.88	61.42
8	total staff costs (GBP K)	1256.01	1817.92	1756.58	1696.66

balance sheet

9	tangible fixed assets (GBP K)	629.56	713.73	753.08	709.2
10	total assets (GBP K)	1444.03	1817.18	1940.96	1729.47
11	trade debtors (GBP K)	508.16	645.75	727.68	659.73
12	stocks (GBP K)	165.1	236.8	153.58	220.68
13	cash at bank and in hand (GBP K)	23.44	30.72	21.82	8.08
14	other current assets (GBP K)	78.44	133.95	214.03	84.11

input data

balance sheet continued

	Latest accounting yr (2007/08)	Prev yr 1 (2006/07)	Prev yr 2 (2005/06)	Prev yr 3 (2004/05)	
15	trade creditors (GBP K)	177.04	289.98	384.57	418.83
16	other current liabilities (GBP K)	132.28	158.14	107.02	99.87
17	short term loans (GBP K)	479.98	479.51	558.3	502.53
18	long term loans (GBP K)	538.27	671.91	496.56	370.11
19	other long term liabilities (GBP K)	11.3	11.3	1.71	1.71
20	shareholders' funds (GBP K)	90.13	191.33	332.8	336.42
21	cost of bought in goods and services (GBP K)	1209.92	1792.82	1655.43	1705.29

supplementary data

22	no. of FTE (full time equivalent employees) (#)	29	28	27	25
23	no. of employees in direct, value added activities (#)	25	24	23	22
24	directors' salaries taken as dividends (GBP K)	300	300	290	290

Winning measures data protection declarations

Winning Moves Ltd is primarily responsible for the delivery of the Winning Measures system and will process your personal data in accordance with the Data Protection Act 1998 ('DPA') as the data controller. The information you provide will be used for the following purposes:

1. Processing and assessing the data contained in the questionnaire.
2. Submission to the database, which allows the data to be processed and a benchmark derived.
3. The ratio results (but not your personal details) may be used for statistical, performance reporting, benchmarking and evaluation purposes.

The database refers to all businesses that have used Winning Measures for the purpose of benchmarking themselves against a comparison group of similar businesses.

You have a right to request a copy of any personal data held by Winning Moves Ltd at any time, so that you can check the accuracy of the information held.

If you wish to do this, please write (explaining that your interest is in personal data maintained by Winning Moves Ltd) to: Winning Moves Ltd, Field House, Mount Road, Stone, Staffordshire ST15 8LJ