



AG Capital

*This is a presentation for a fictional company, not a real-life client. It was designed to show an example of the analysis that AG Capital provides to its clients.

Sample Technologies Inc.*

ANALYSIS OF THE FINANCIAL RESULTS
JANUARY 2016 – MAY 2017

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Analysis of the Financial Results
January 2016 – May 2017

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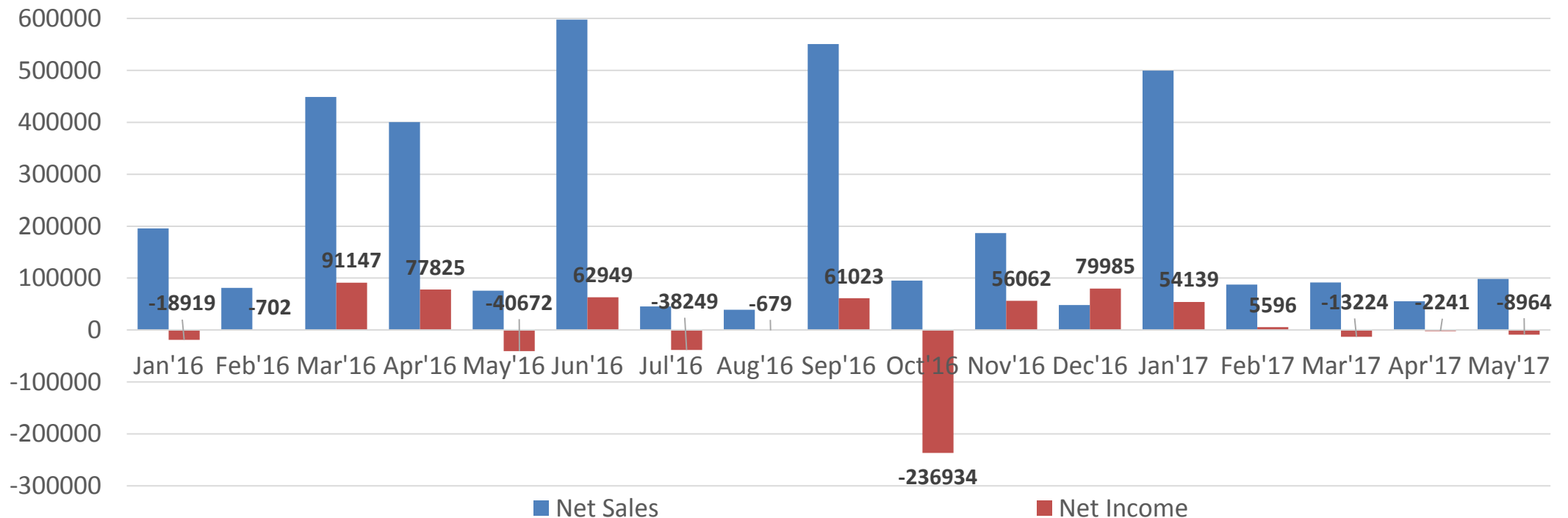
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1. Overall Profitability

JANUARY 2016 – MAY 2017

Net Sales and Net Income

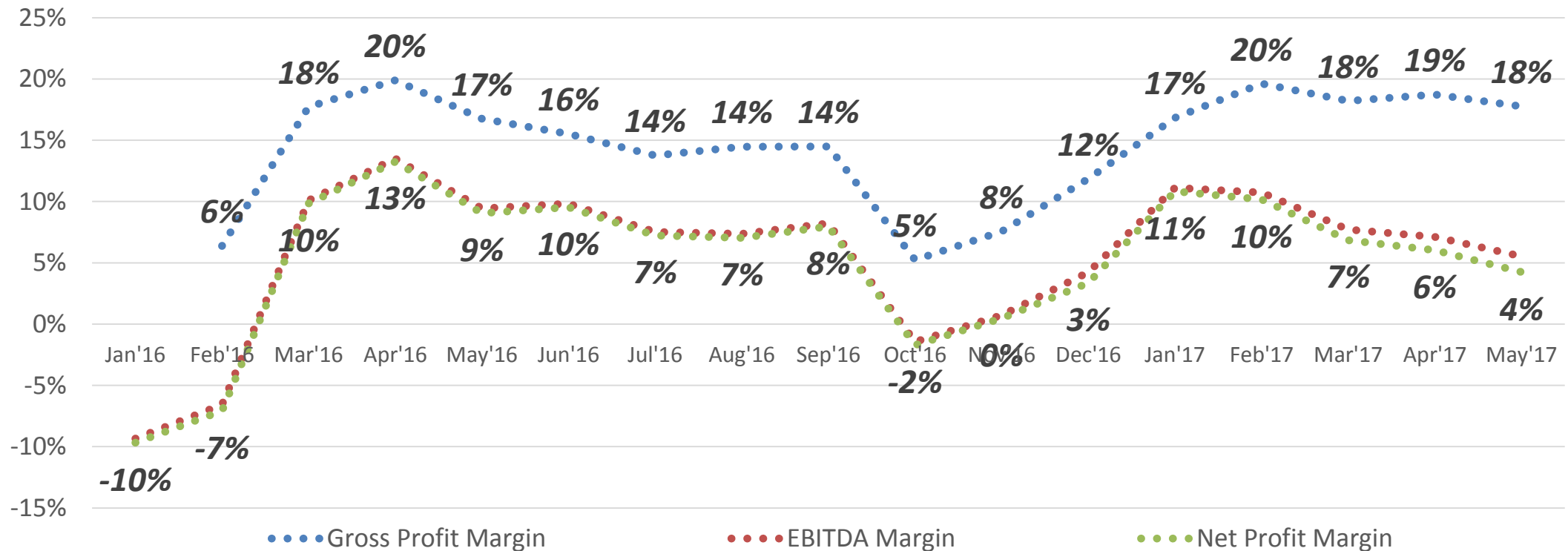
January 2016 – May 2017



Total net sales in **Year 2016** reached the point of **\$2.764M (on average ~ \$230.3K per month)**, net income for Year 2016 was \$92.836K or 3% from total net sales.

Total net sales in **January - May 2017** equaled to **\$832.359K (on average ~ \$166.5K per month; -28% compared to monthly net sales in Year 2016)**, net income was \$35.4K or 4% from total net sales.

Profitability Ratios January 2016 – May 2017



Overall **gross profit margin** in January 2016 – May 2017 on average was **13%** from total net sales, but total **net profit margin** was on average **3-4%** from net sales.



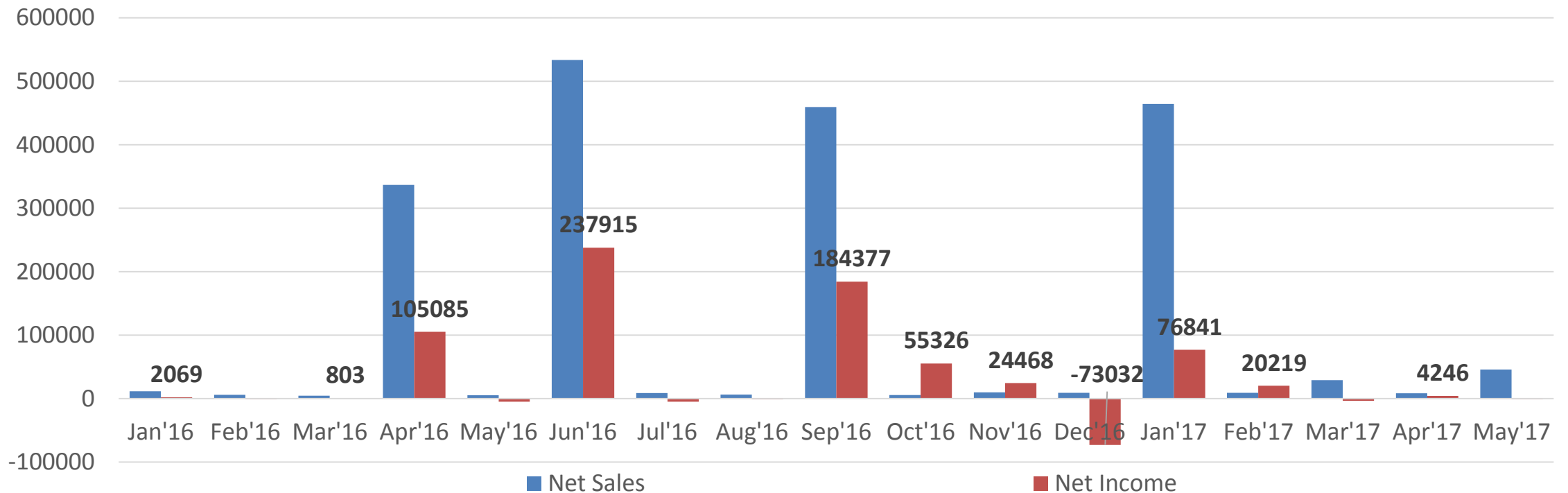
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2. Customers and Vendors

JANUARY 2016 – MAY 2017

Net Sales and Net Income

January 2016 – May 2017



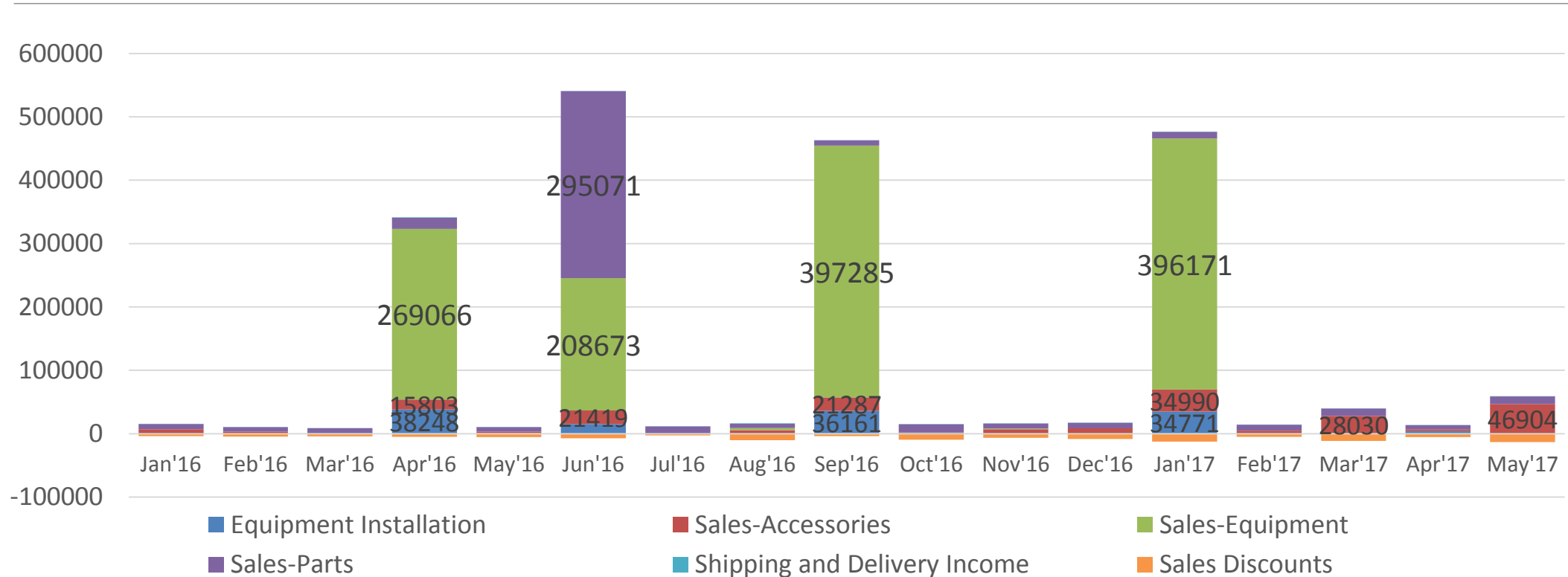
Net sales in January 2016 – May 2017 contributed ~54% from total net sales (e.g. \$1.953M out of \$3.596M).

Gross profit from sales to related parties reached the point of \$622.4K.

The company shows positive overall profitability ratios only thanks to profitable deals with related parties.

Sales Structure (1)

January 2016 – May 2017

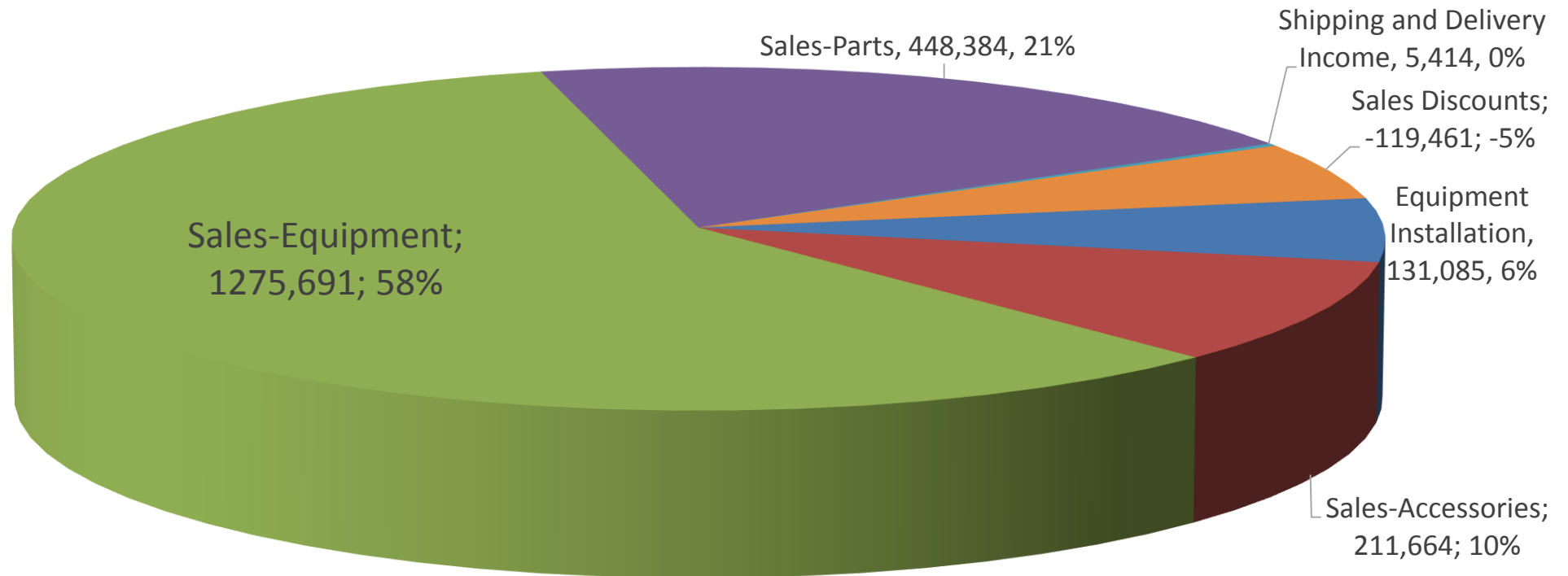


Average monthly sales to related parties in January 2016 – May 2017 were ~ \$114.9K.

The volatility in sales throughout the period is mostly attributable to completion of large installation orders, which are booked only by the end of each installation.

Sales Structure (2)

January 2016 – May 2017



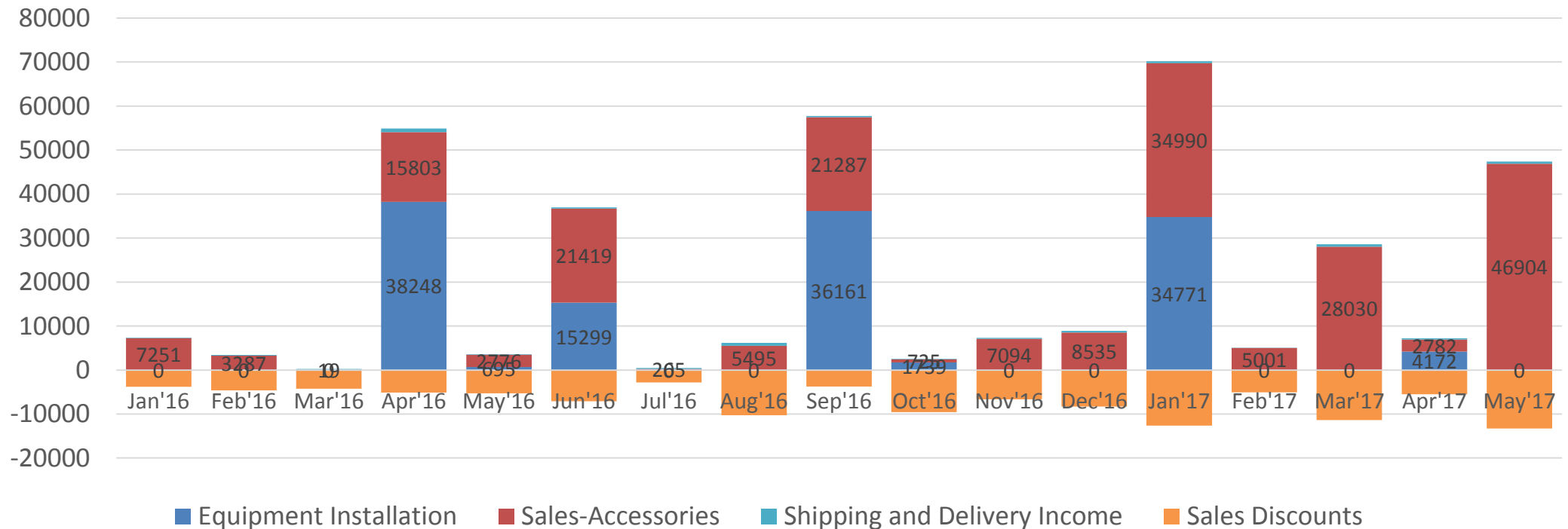
Net sales to related parties in January 2016 – May 2017 reached the point of \$1.953M and consisted mainly of equipment and part sales.

Sales discounts to related parties contributed 5% from total net sales to related parties.

Sales discounts are not identifiable by sales positions.

Regular Sales Structure (1)

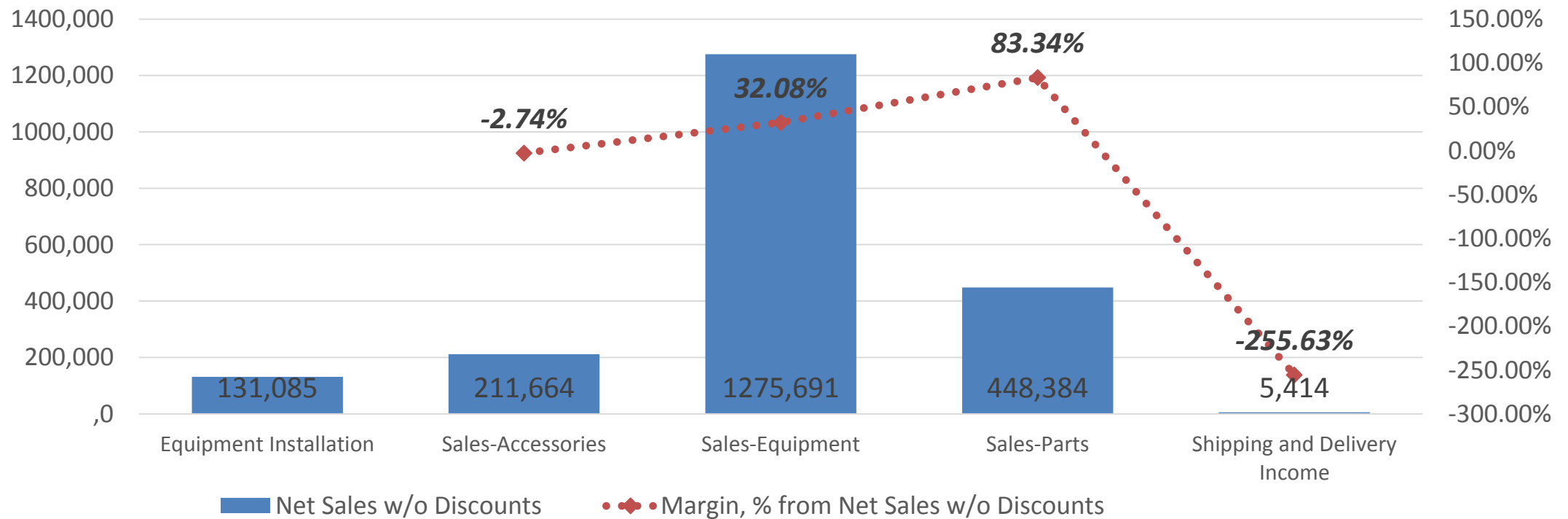
January 2016 – May 2017



Regular monthly sales to related parties in January 2016 – May 2017 were ~ \$13.5K.

The volatility in regular sales throughout the period is also mostly attributable to completion of large installation orders they are associated with, these orders are booked only by the end of each installation.

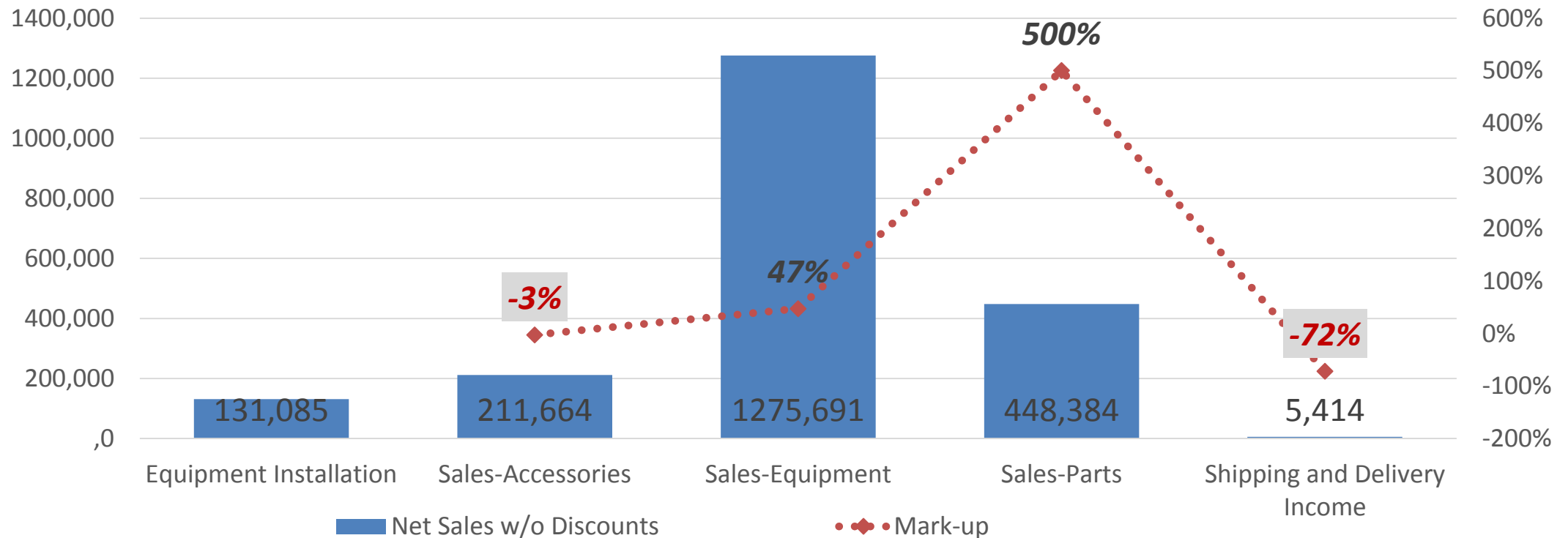
Net Sales and Margin January 2016 – May 2017



Average margin from sales of accessories to related parties in January 2016 – May 2017 was -3%, which means that **accessories were sold to related parties at a loss** (*the higher margin, the better*).

Mark-up

January 2016 – May 2017



Average gross mark-up from sales of accessories to related parties of in January 2016 – May 2017 was -3%, which means that **accessories were sold to related parties at a loss** (*the higher mark-up, the better*).

In January – May 2017, the weighted average mark-up for accessories sold was +3%.



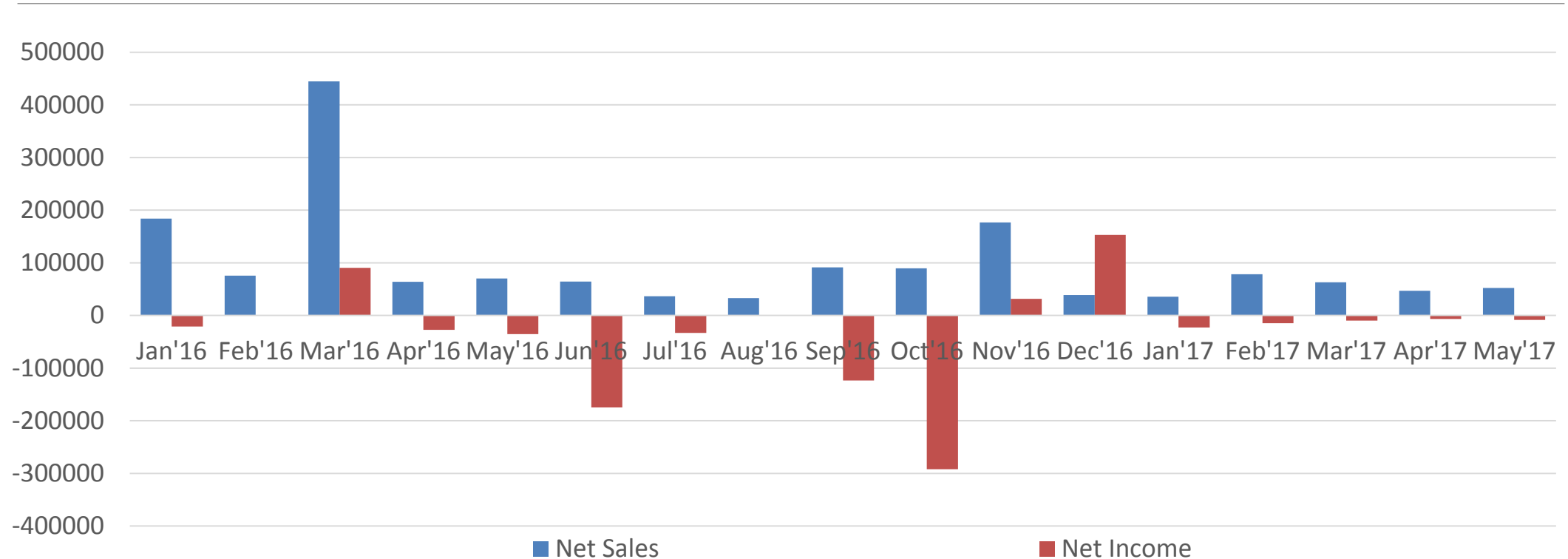
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3. Sales to External Customers

JANUARY 2016 – MAY 2017

Net Sales and Net Income

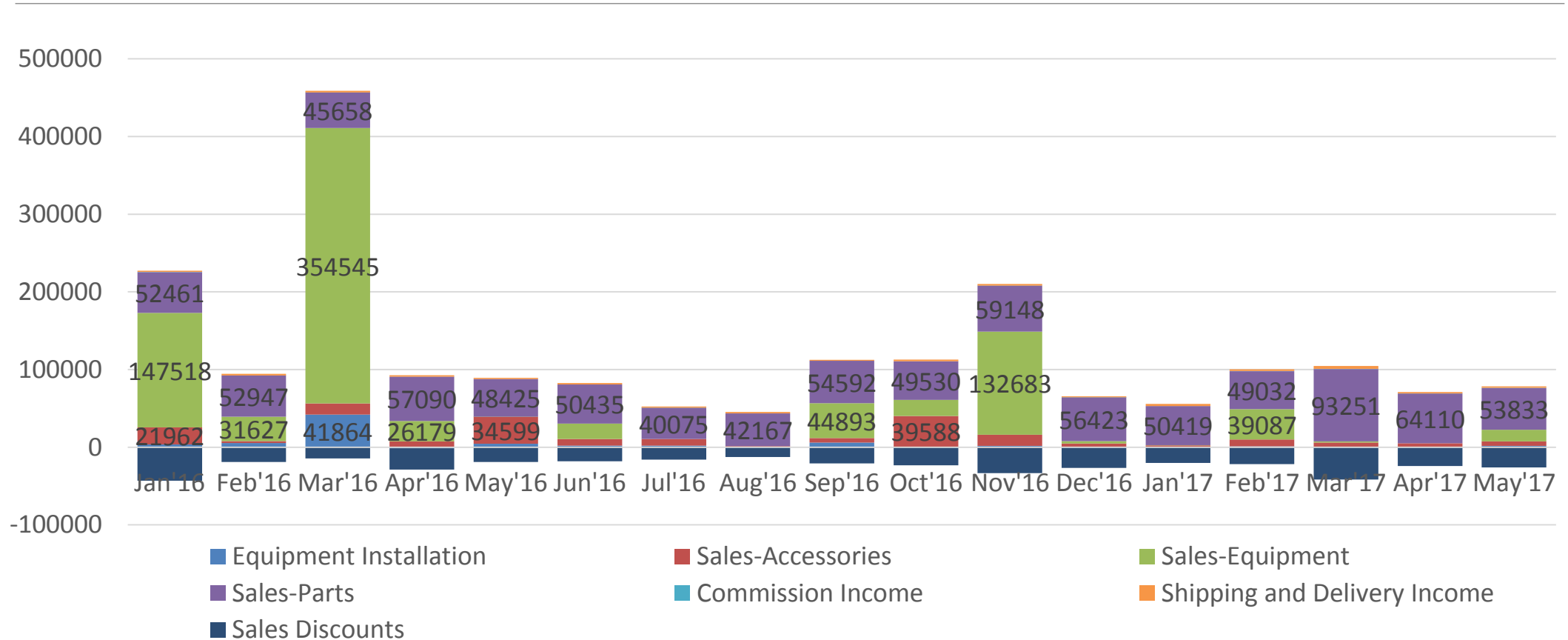
January 2016 – May 2017



Net sales to external parties in January 2016 – May 2017 contributed ~46% from total net sales (e.g. \$1.644M out of \$3.597M). Gross losses from sales to external parties were -\$148.7K (gross profit from all sales deals was +\$475.4K). The company sold goods and services to external parties with negative average mark-up.

Sales Structure (1)

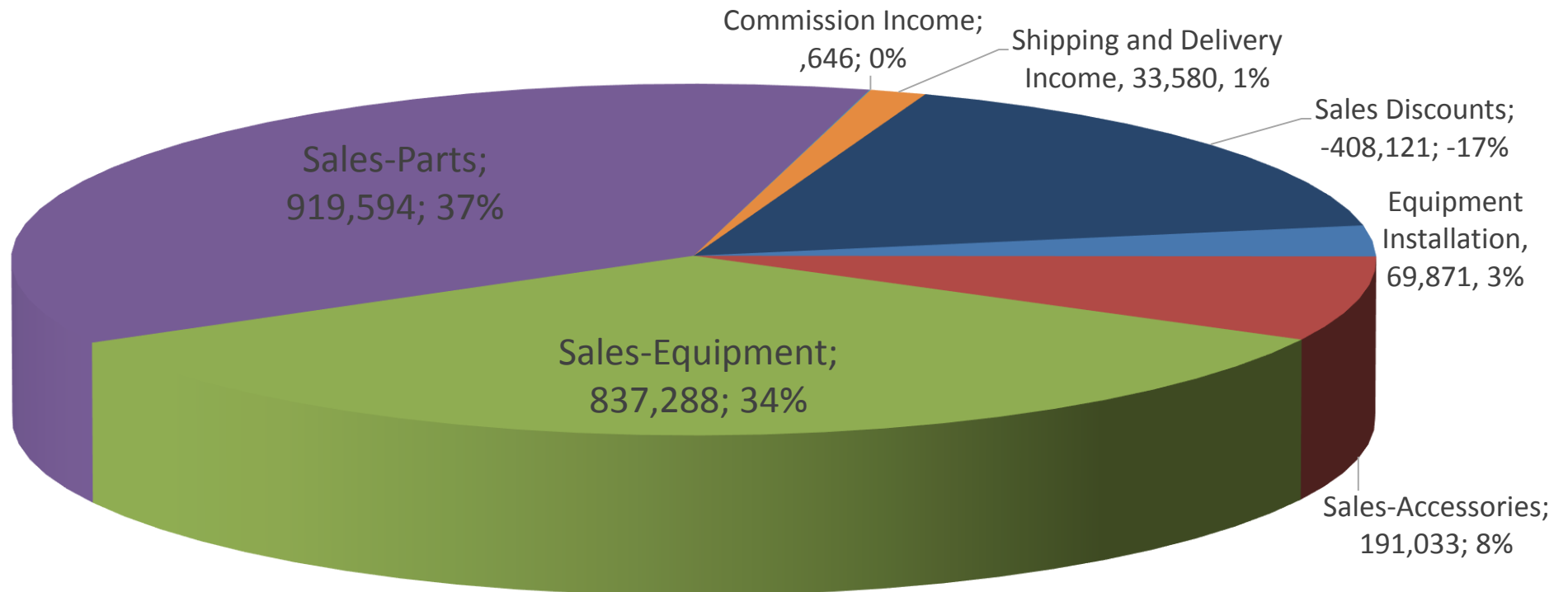
January 2016 – May 2017



Regular monthly sales to external parties in January 2016 – May 2017 (excluding large equipment sales deals in March 2016) were ~\$75K.

Sales Structure (2)

January 2016 – May 2017

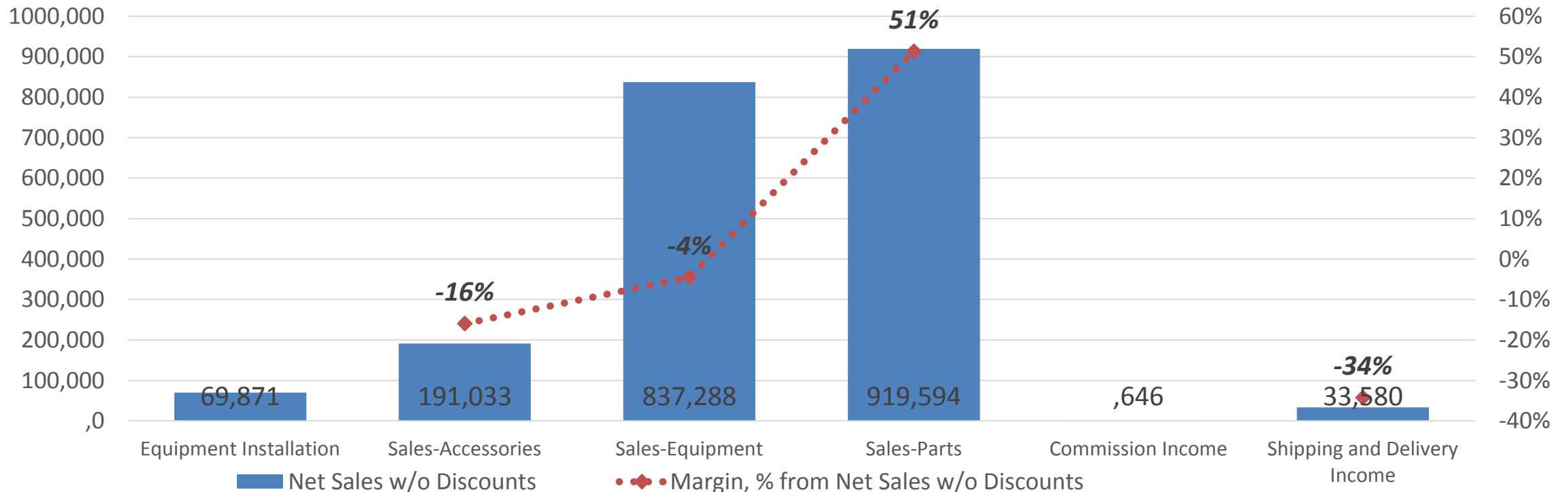


Net sales to external parties in January 2016 – May 2017 reached the point of \$1.644M and consisted mainly of equipment and part sales.

Sales discounts to external parties contribute 17% from total net sales (or ~35%, excluding large deals with the sales of equipment). Sales discounts are not identifiable by sales positions.

Margin

January 2016 – May 2017

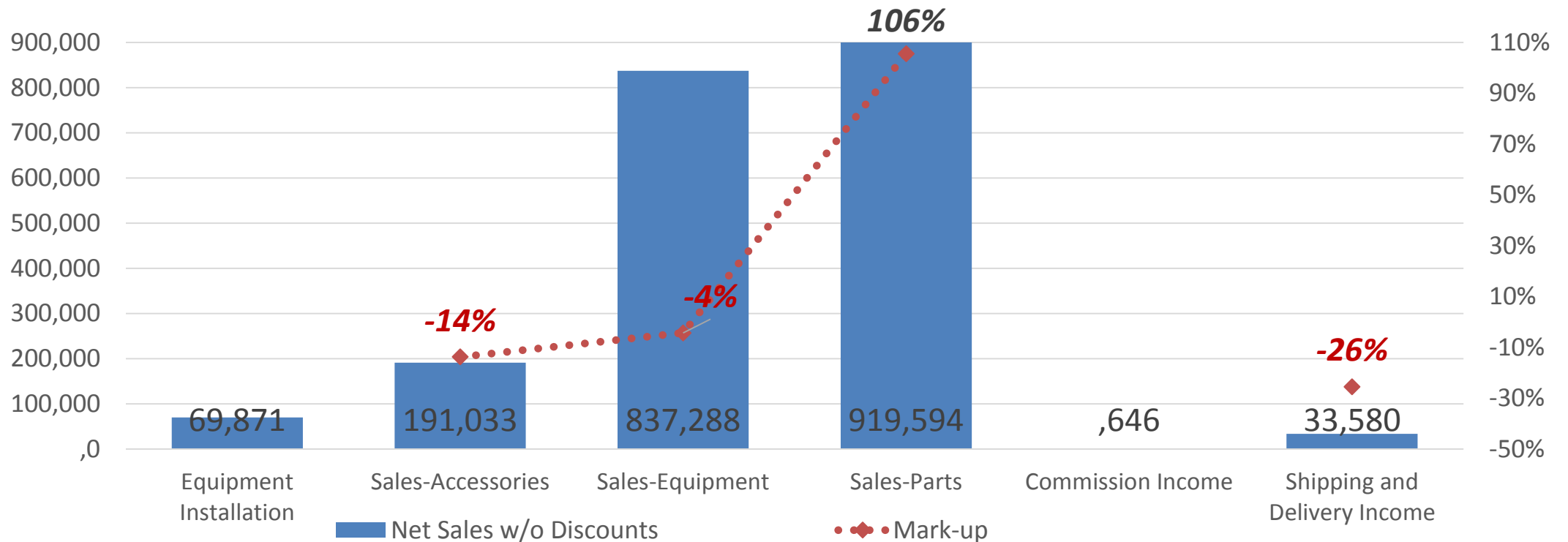


Average margin from sales of accessories and equipment to external parties in January 2016 – May 2017 was accordingly -16% and -4%, which means that **accessories and equipment were sold to external parties at a loss.**

Worth mentioning that in January - May 2017 average margin for accessories and equipment sold was +25%.

Average margin before a discount for goods sold to external parties is lower. Discount rate for goods sold to external parties is higher.

Mark-up January 2016 – May 2017



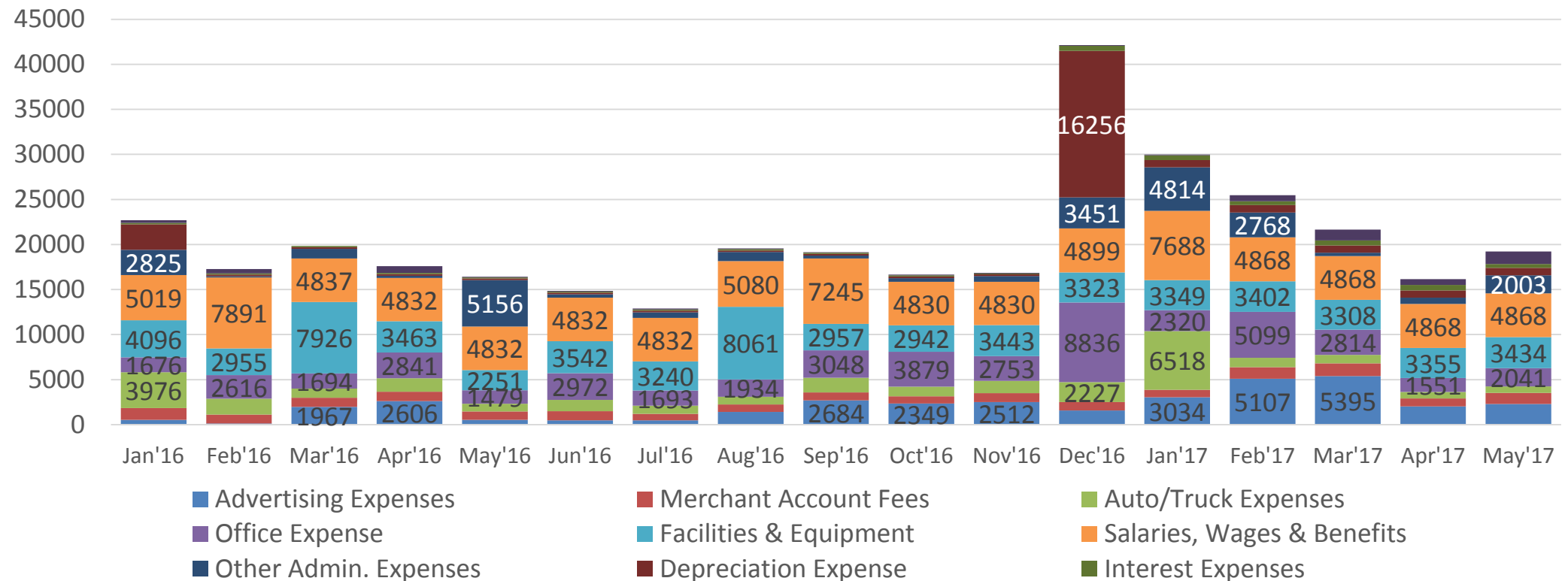
Average mark-up from sales of accessories and equipment to external parties in January 2016 – May 2017 was accordingly -14% and -4%, which means that **accessories and equipment were sold to external parties at a loss.**

Worth mentioning that in January - May 2017 average mark-up for accessories and equipment sold was +38%.

Average mark-up before a discount for goods sold to external parties is lower. Discount rate for goods sold to external parties is higher.

Cost Structure (1)

January 2016 – May 2017



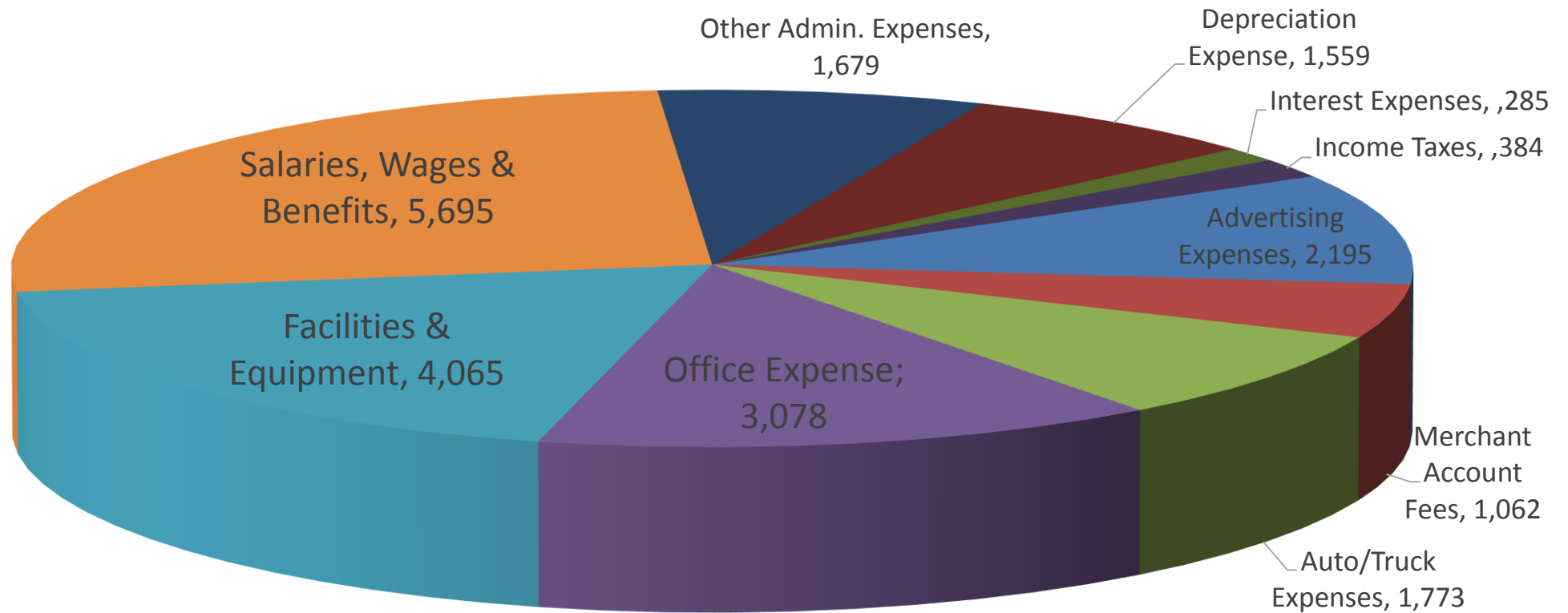
Average monthly indirect costs in January 2016 – May 2017 (all costs, excluding cost of goods sold), were **\$21.8K** (including non-cash depreciation expenses of ~\$0.834K per month).

Operating costs (payroll expenses, etc.) are not identifiable between related / external parties.

Cost Structure (2)

January 2016 – May 2017

Average Monthly Expenses



Average monthly indirect costs in January 2016 – May 2017 (all costs, excluding cost of goods sold), were **\$21.8K**.

Comments on Cost Structure

Facilities and equipment – rent (*~ \$3K per month out of total facility expenses of ~ \$3.4K per month*), electricity, gas, alarms, cleaning.

Office expense – office suppliers, computer / internet / website / telephone, etc. office expenses.

Other Admin. Expenses – legal and accounting fees, general liability insurance, licenses and permits, dues and subscriptions, postage, bank fees/charges, meals and entertainment, miscellaneous expenses.

Salaries, Wages & Benefits – salaries, payroll tax, health insurance, worker compensation.

Income taxes – State Income tax, Business tax, Sales tax paid.



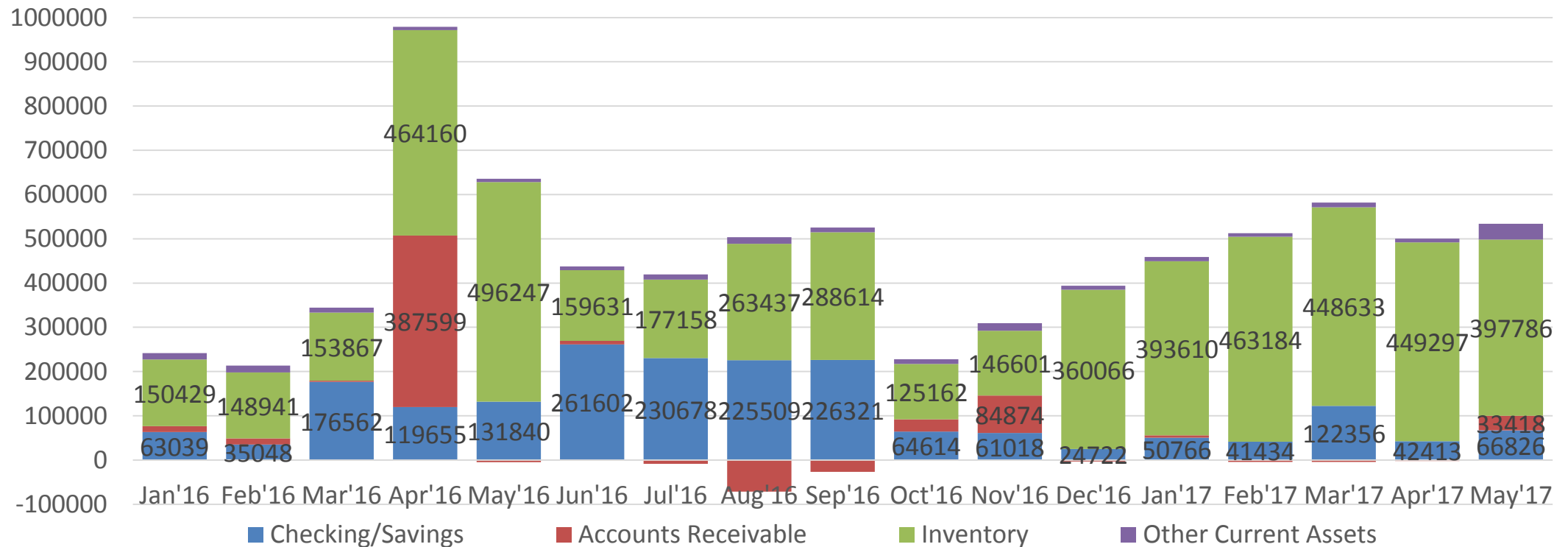
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4. Balance Sheet

JANUARY 2016 – MAY 2017

Assets

January 2016 – May 2017



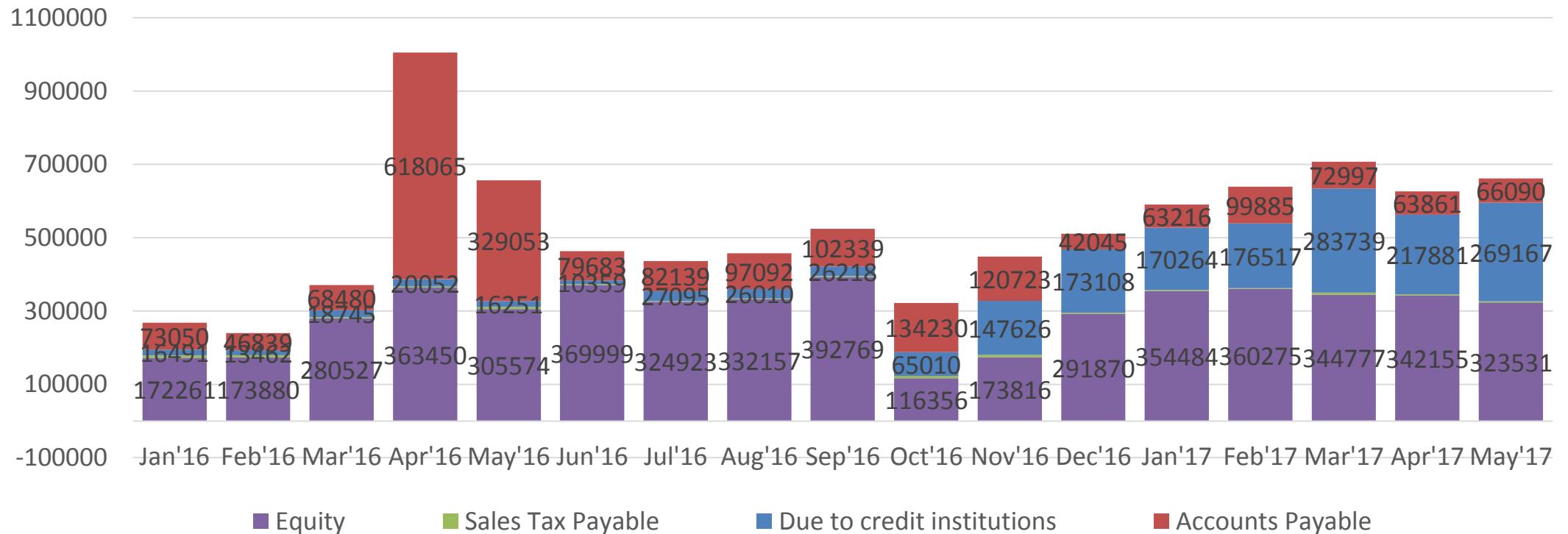
Assets consist mainly of fixed assets (~20% from total assets) as well as inventory (~60%) and cash resources (10%).

There is a substantial increase in inventory in Year 2017.

In separate months accounts receivable were booked with negative values .

Equity & Liabilities

January 2016 – May 2017



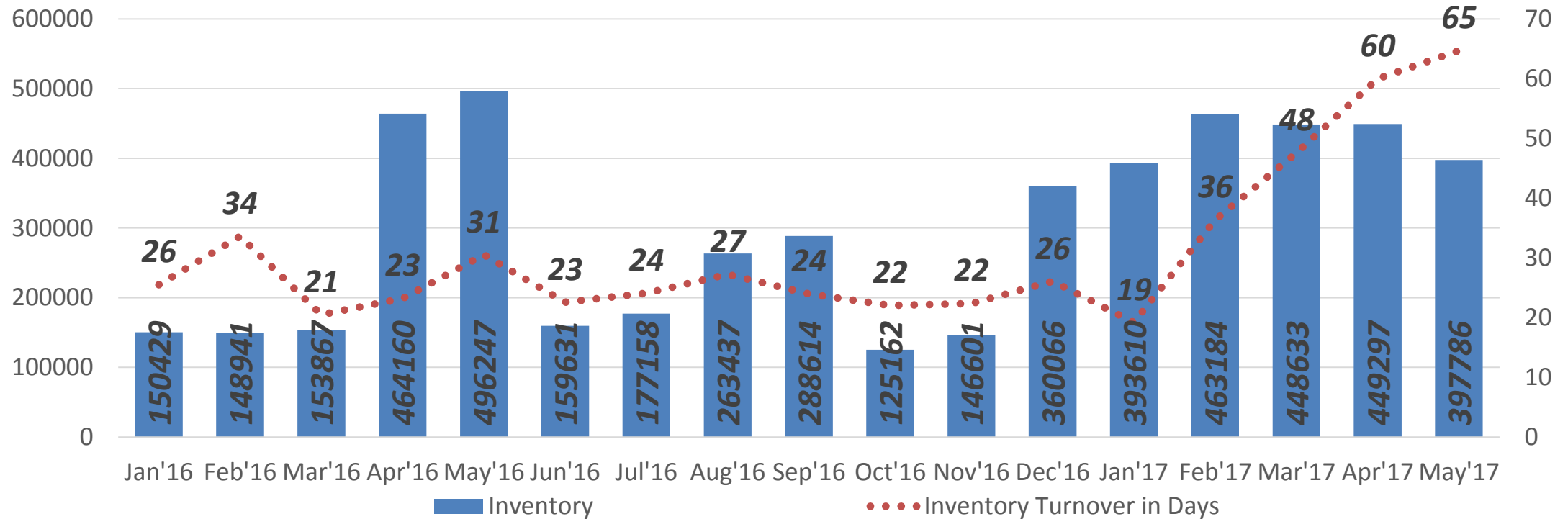
Equity and Liabilities consist of mainly shareholder's equity (~50%) and due to credit institutions (40%).

The company has high liquidity (*accounts receivables+inventory+cash exceed accounts payable+short-term lease payments by ~2 times*).

Debt/EBITDA ratio is below 1,0 (*the lower, the better*), meaning that the company has good capacity to borrow money.

Inventory and Inventory Turnover

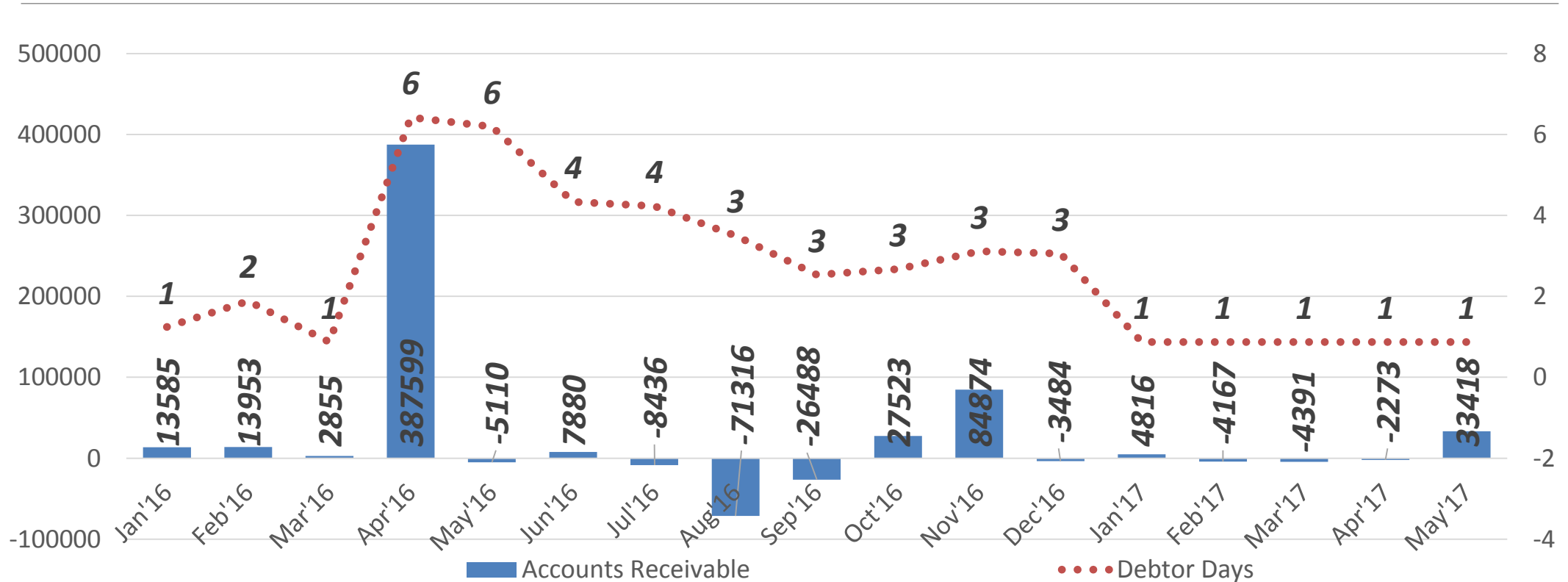
January 2016 – May 2017



The value of inventory and average inventory turnover ratio increased by 2.5 times in Year 2017. Taking into account current average monthly sales volume to both related and external parties, **current inventory could be sold within next 65 days.** It is of essence to control inventory to get rid of low liquidity risk.

Accounts Receivable and Debtor Days

January 2016 – May 2017

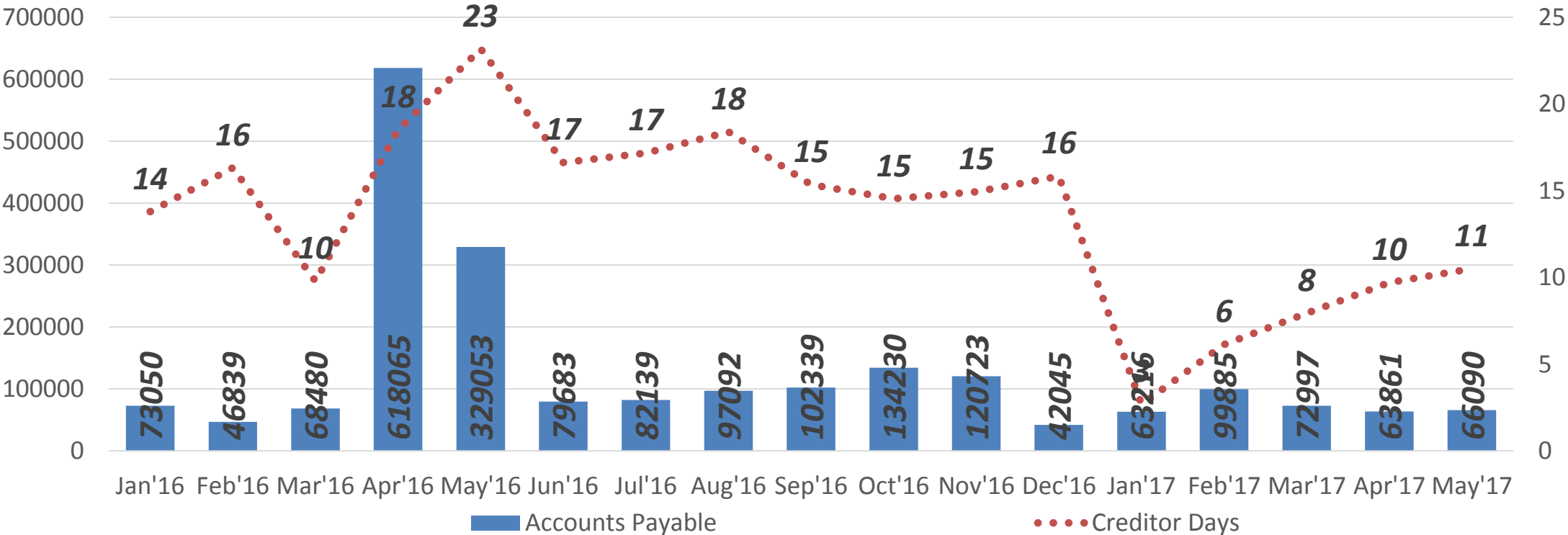


In separate months accounts receivable were **booked with negative values**.

According to balance sheet data, it takes to customers on average up to one week to pay for the goods / services purchased – good payment discipline.

Accounts Payable and Creditor Days

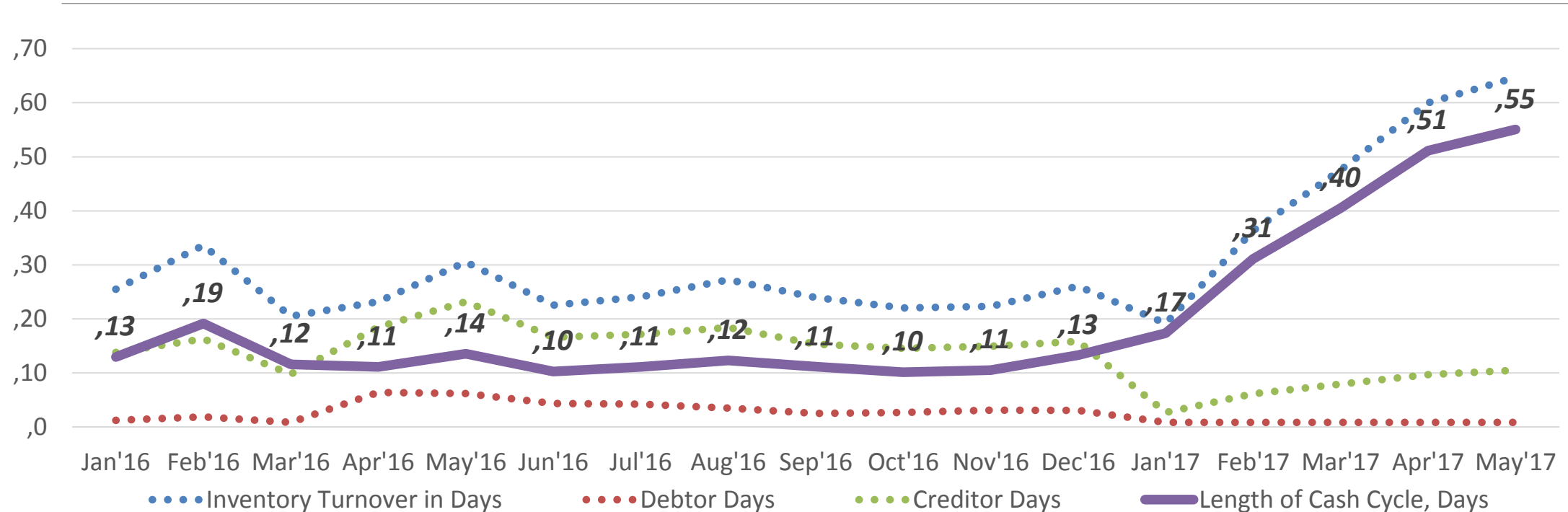
January 2016 – May 2017



According to balance sheet data, it takes up to two weeks to pay for bills / invoices received from vendors. Increasing creditor days ratio will improve liquidity. The higher creditor days ratio, the better.

Length of Cash Cycle in Days

January 2016 – May 2017



The length of cash cycle (average number of days starting from the day money is paid to vendors for acquired inventory and ending with the day money is received from customers for goods sold) on average is ~55 days.

In other words, the company has to finance its commercial operations during 2 months.

Liquidity of the company depends mainly of inventory turnover – it is of great importance not to hold excessive inventory in order to avoid lack of cash resources.



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5. Summary of the Key Findings

JANUARY 2016 – MAY 2017

Summary of the Key Findings (1)

Analysis of the Financial Results
January 2016 – May 2017

- 1. The company shows positive overall profitability ratios (*gross margin of 13% and net profit margin of 4%*) only thanks to highly profitable sales of equipment and parts to related parties.**
- 2. Net sales to related parties** in January 2016 – May 2017 contributed **~54% from total net sales** (*e.g. \$1.953M out of \$3.597M*).
3. Accessories were sold to related parties with negative average margin (-3%). In Year 2017 average margin was +5%.
4. Accessories and equipment were sold to external parties with negative average margin (*accordingly, -16% and -4%*). In Year 2017 average margin for the goods sold was +25%.
- 5. Average margin before a discount for goods sold to external parties is lower** (*compared to the average margin for goods sold to related parties; -9% vs. +32%*).
- 6. Discount rate for goods sold to external parties are higher** (*compared to the average discount rate for goods sold to related parties; -17% vs. -5%*).

Summary of the Key Findings (2)

Analysis of the Financial Results
January 2016 – May 2017

7. **Average monthly costs** in January 2016 – May 2017 (*all costs, excluding cost of goods sold*), were **\$21.8K**.

➔ taking into account average overall gross margin of 13%, the company has to generate **monthly net sales of at least \$168K to generate zero net profit margin**.

8. **The value of inventory** and average inventory turnover ratio **increased substantially in Year 2017**. Taking into account current average monthly sales, it will take ~2 months to sell current inventory. **It is of great importance not to hold excessive inventory in order to avoid lack of cash resources.**

9. The company. has strong balance sheet (*thanks to deals with related parties*):

➤ Current assets exceed current liabilities by more than 2 times;

➤ Debt / EBITDA ratio is below 1 (*the lower, the better*).

➔ The company has good capacity to borrow money.

Summary of the Key Findings (3)

Analysis of the Financial Results
January 2016 – May 2017

10. Our recommendations:

- **Split indirect operating expenses (e.g. payroll expenses) between related and external parties** so as to be able to determine the profitability of the deals with related and external parties precisely.
- **Split sales discounts by sales positions** so as to be able to determine average margin by sales positions precisely.
- Check accounts receivable
(*negative values in various months in order*).

Thank you for the attention!
Questions / Comments?



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