

The background of the slide is a collage of business-related images. It includes a smartphone, a tablet, and a laptop, all displaying various data visualizations such as bar charts, pie charts, and line graphs. The text 'Year Plans successful' is repeated on some of the documents. A blue semi-transparent banner is overlaid across the middle of the image, containing the main title.

Company Performance Report

Based on 2020 Results

2021

COMPANY PERFORMANCE REPORT

The Company Performance Report is designed to assist you in evaluating your own firm's performance relative to your peers in the industry who participated in this year's ASA OPR survey. The financial ratios contained on the following pages represent broad performance "yardsticks" against which your company's operating results can be measured. Using this information, you can compare your own figures with those of firms selling the same broad classes of products as your company, as well as those firms in your same geographic region and same general sales volume category. In addition, comparative information is provided showing the performance of the "high profit" firms. This refers to a special data grouping of the most profitable companies (based on before tax return on assets).

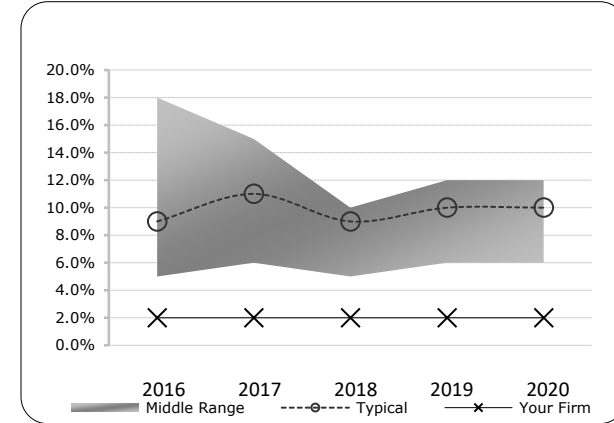
REPORT ORGANIZATION

Essentially, the Company Performance Report has six main sections:

- 1. Summary Performance Evaluation**--This section of the report provides an objective, qualitative evaluation of your firm's performance versus similar reporting companies in the industry on the basis of various key performance measures. In particular, your firm is compared to other reporting companies to determine whether you performed: Strong, Good, Fair or Weak. These four performance categories relate to the four possible quartile ranges which a reporting company may fall in for any given measure. While this evaluation does not consider any "special circumstances" that may exist for your company which result in the appearance of strong or weak performance, it is designed to direct your attention to **potential** improvement opportunities.
- 2. Graphic and Tabular Trend Analysis**—This section summarizes, in *both* graphic and tabular form, some of the key performance benchmarks over time, showing trends that might exist for your particular company and/or for your industry peers. Assuming the data is available, each graph shows:
 - Your firm's own performance (the solid line on the graph).
 - The industry median or "typical" performance benchmark reported by your industry peers (the dotted line on the graph).
 - The performance of the middle 50% of all reporting firms, or the "middle range" (the shaded area of the graph) (as defined by the upper and lower quartile).

If your firm participated in the ASA survey each of the last two, three, four or five years, the graphs included here show data for both your firm and the industry comparative. If your participation has not been in consecutive years, your results are plotted but trend graphs are not included. If your results do not appear for certain items, you probably did not report the necessary data. If certain industry data are missing, an insufficient number of firms reported for that item.

Net Profit Before Tax to Total Assets (Hypothetical Sample Data Only)



This trend graph information is designed to be a tool for helping you to better control your operations. Essentially, the information is designed so that you can easily see:

- a. Your own firm's year-to-year performance trend for each ratio.
- b. The overall industry's trend performance for each ratio.
- c. How your firm's performance trend compares to the ASA industry benchmark for each ratio.
- d. Whether or not your firm's performance is above or below the "middle range" of performance for each ratio.

In other words, the trend graphs included in this report are designed to provide a visual snapshot of your firm's "trend" performance (as well as that of the overall industry), thus supplementing the detailed information already contained in your **Individual Company Performance Report**. In addition, keep in mind that these trend graphs are organized as three separate pages, with each page a separate distinguishing color. In particular:

- a. The first page (i.e., the **BLUE** page of graphs pertains to your "OVERALL PERFORMANCE".
- b. The second or **RED** page of graphs pertains to your "SALES AND PRODUCTIVITY PERFORMANCE".
- c. The third or **GREEN** page of graphs pertains to your "ASSET AND FINANCIAL MANAGEMENT".

(NOTE: The graphs can be printed and used in either color or black & white, but printing in color will help distinguish the three aspects of your operations.)

COMPANY PERFORMANCE REPORT

3. **Detailed Statistical Tables**--This section of the report shows your firm's financial performance ratios alongside the appropriate industry comparatives for many different measures. While the first two sections of the Company Performance Report (described above) provide a summary overview of areas to analyze in greater detail, the detailed statistical tables provide the background for a more in-depth examination of your business.
4. **Profit Model Ratios**--This section compares your profit model components with the comparatives for firms similar to yours. An explanation of the model is also included.
5. **The Z Score**--This section computes your company's Z score, a widely used bankruptcy predictor that was developed in the 1960's. A three page narrative will help you understand how the Z score works.
6. **Ratio Definitions and Calculations**--This section indicates how the various ratios in the report are calculated and a brief description of how each can be used.

USING FINANCIAL RATIOS

The information in this report is designed to be a tool for helping you to better **control** your business. In particular, you are provided with a series of financial **ratios** for both your own firm as well as firms similar to yours in the industry. Essentially, the information is provided in ratio and percentage form rather than as absolute dollars so that meaningful comparisons can be made to past performance and to general industry performance (as measured by reporting firms). For example, while it is important for you to know your firm's annual payroll expense, it is even more essential to compare this expenditure with the value it produces. Therefore, a useful measure of **effectiveness** of payroll expense may be a ratio such as "payroll expense as a percent of sales."

However, just as absolute dollar figures are not meaningful in isolation, so to is no ratio meaningful in isolation. Ratios should be compared with one or more other performance measures to determine whether or not a satisfactory level exists. Other performance measures might be your firm's own past performance, your budgeted performance, or industry comparatives, such as those provided in this report.

GUIDELINES FOR USING THIS REPORT

When using the information in this report for purposes of comparing your own firm's performance, begin with the "Overall Performance Measures" as well as the percentage "Income Statement." These data provide the best overview of your operating position and overall profitability. As a starting point, look at the "Your Firm" column in the report versus the column that represents firms similar to yours in sales volume. If you see that a significant deviation exists between the industry norms and your own firm's performance, this is not necessarily good or bad, but is merely a **signal** that additional analysis may be needed. In cases where significant unfavorable variances do exist, you should determine

whether the deviation is the result of extraordinary factors outside your control, or whether there is some controllable opportunity to improve the situation.

After your initial review of the key areas suggested above, you should have a fairly good idea of what additional information to consider from the other sections of this comprehensive study. In all likelihood, more in-depth analysis will be necessary to pinpoint specific decisions for future action.

UNDERSTANDING THE DATA

Most of the performance indicators included in the Company Performance Report represent medians rather than arithmetical averages or means. Median figures are shown under the column heading "Typical" to represent how the typical reporting firm in the industry performed for any given financial measure. The "median" figure represents the mid-point of the figures with one-half of the firms reporting figures above it and one-half below. Each median was computed independently based on the companies which reported for that item. As a result, normal mathematical relationships do not always exist when different ratios are used together in calculations. For example, the median net sales percent minus the median cost of goods sold percent does not necessarily equal the median gross margin percent. In some cases, where appropriate, averages, or arithmetic means, are used for certain industry benchmarks.

As you compare your own data versus the "typical" figures for other industry firms, several important points need to be recognized:

1. A deviation between your figure (for any performance measure) and the industry comparative figure is not necessarily good or bad; it is merely an indication that additional analysis may be needed. As a rule, the larger the discrepancy, the greater the need for additional scrutiny.
2. In cases where you determine that potentially serious deviations do exist, it may be helpful to go back and calculate the same performance measure for your firm over the past several years to identify any trends that may exist. (The graphical trend analysis section of the report already does this for up to five years, depending on your firm's participation in past ASA surveys.)
3. The information in this report should be used as tools for decision-making rather than absolute **standards**. Since firms differ depending upon their merchandise mix, their location, their size, and other factors, any two firms can be successful, yet some of their performance measures, such as profit margin or inventory turnover may differ greatly.

Also, for any given measure, if insufficient benchmark data exists to show reliable results, the report shows "ISD."

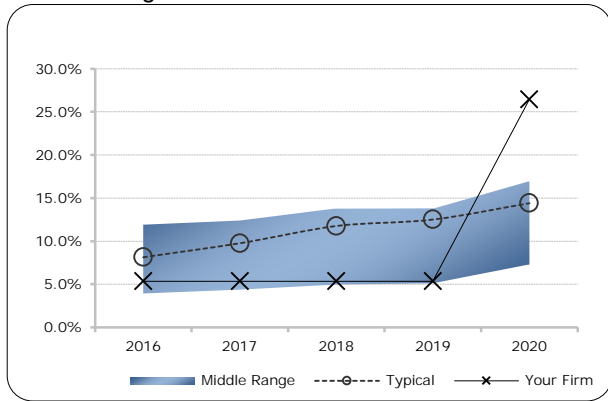
ASA OPERATING PERFORMANCE REPORT "TREND GRAPH REPORT"

OVERALL PERFORMANCE

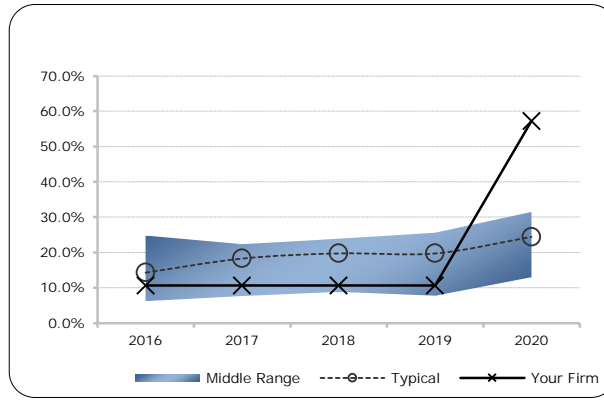
COMPANY NO. 500

NET SALES (000s): \$5,885

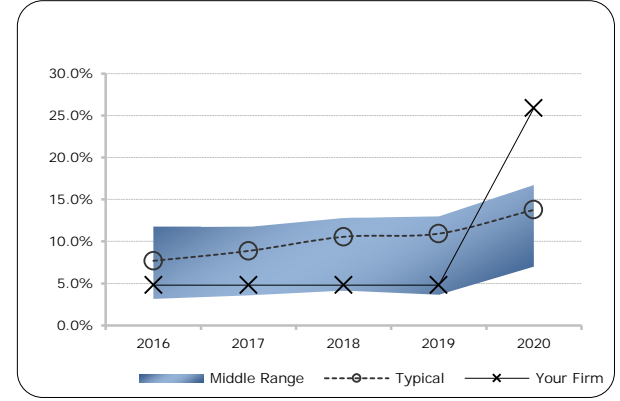
Earnings Before Interest & Taxes-% Assets



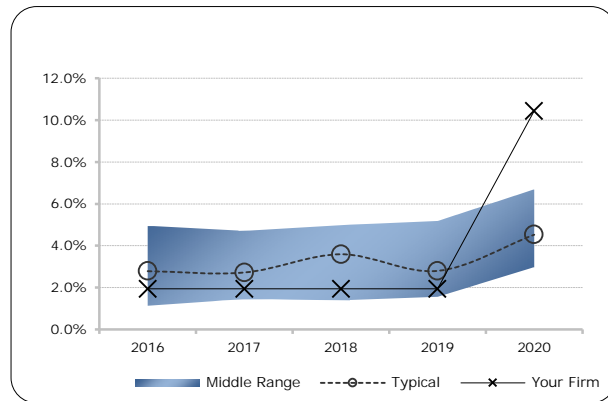
Net Profits Before Tax-% Net Worth



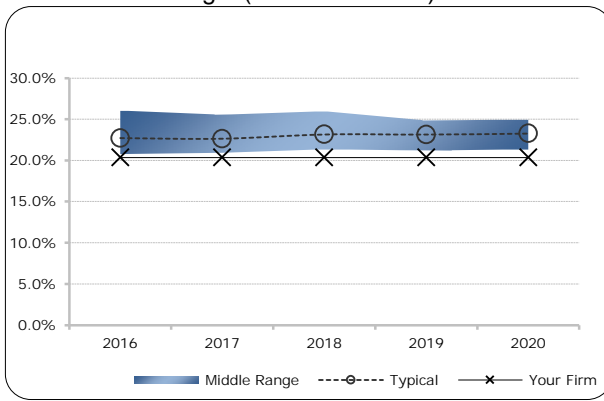
Net Profits Before Tax-% Total Assets



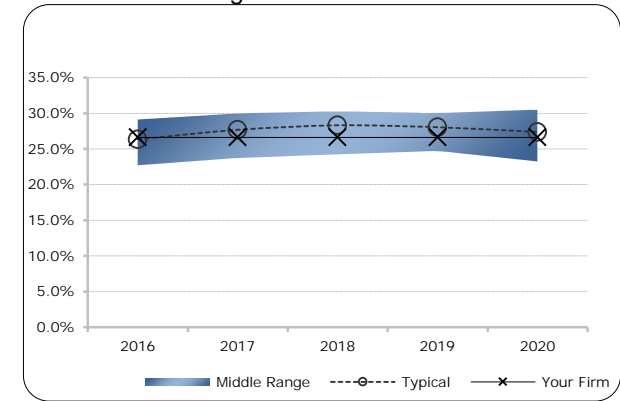
Net Profit Before Tax-% Sales



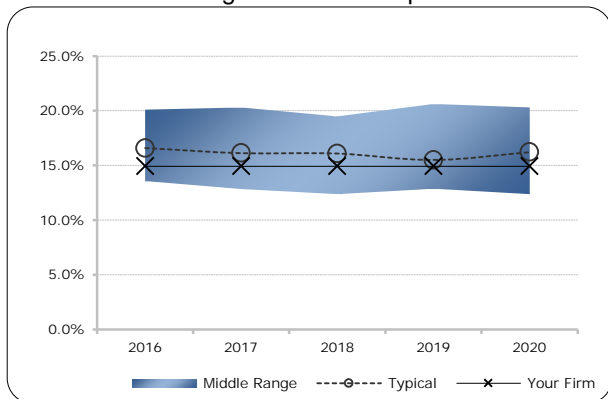
Gross Margin (Before Rebates)-% Sales



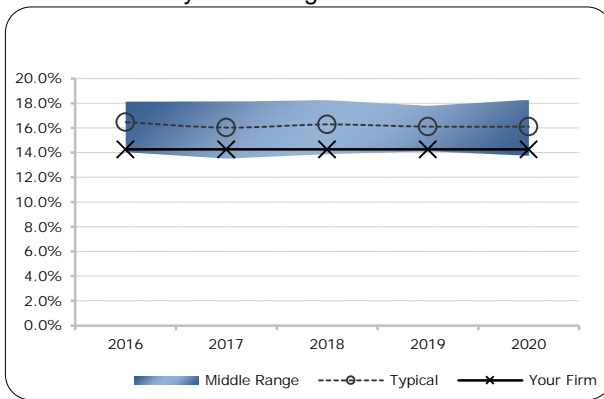
Gross Margin on Warehouse Sales-%



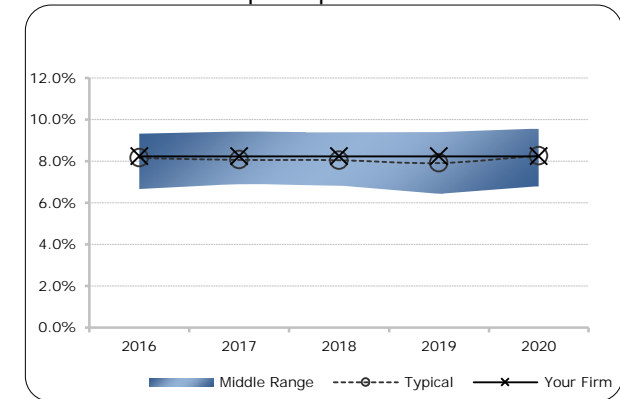
Gross Margin on Direct Shipments-%



Total Payroll & Fringe Benefits-% Sales



Non-People Expenses-% Sales



DETAILED PERFORMANCE RESULTS

Including ASA-Regional Breakdown *For Your Region*, as Follows:

Region 1 WSA (PWDA)	Region 1 SWPD (PWDA)	Region 1 All Other (PWDA)	Region 2 MWD	Region 3 SWCD	Region 4 NCWA	Region 5 ASA NORTHEAST	Region 6 SWA
CA (Northern)	AZ CA (Central & Southern)	AK	IA	CO	IN	CT	AL
NV (Northern)	NV (Southern)	HI	IL	NM	MI	DC	AR
	UT	ID	IN (Northwest)	OK	OH	DE	FL
		MT	KS	TX	PA (Western)	MA	GA
		OR	MN		WV	MD	KY
		WA	MO			ME	LA
		WY	ND			NH	MS
			NE			NJ	NC
			SD			NY	PR
			WI			PA (Central & Eastern)	SC
						RI	TN
						VT	VA

* Due to sample size considerations, WSA, SWPD, and All Other Region1 survey participants were combined into the PWDA region.

ASA OPERATING PERFORMANCE REPORT (BASED ON 2020 RESULTS)

COMPANY NO. 500
NET SALES (000s): \$5,885

	<u>YOUR FIRM</u>	<u>ALL PLUMBING</u>	<u>ALL P-V-F</u>	<u>ALL PLUMB & P-V-F</u>	<u>ALL HVAC & OTHER</u>	<u>YOUR REGION</u>
OVERALL PERFORMANCE MEASURES						
Net Profit Before Tax to Net Sales	10.4%	6.9%	3.0%	5.4%	5.0%	5.7%
Net Profit Before Tax to Total Assets	25.9%	17.3%	8.1%	12.4%	10.2%	13.7%
Net Profit Before Tax to Net Worth	57.3%	28.6%	14.3%	23.6%	22.6%	26.1%
EBIT to Net Sales	10.7%	7.1%	3.3%	5.8%	5.4%	6.0%
EBIT to Total Assets	26.5%	17.8%	8.5%	13.3%	12.9%	14.5%
EBIT to Net Worth	58.5%	30.2%	16.3%	25.6%	24.6%	27.3%
EBITDA to Net Sales	11.0%	7.7%	4.0%	6.6%	6.2%	7.0%
SALES ANALYSIS						
Net Sales(\$000)	\$5,885	\$53,647	\$32,302	\$81,986	\$74,196	\$47,516
Number of Branches		7.0	3.5	9.0	9.0	7.0
% Sales Change from Prior Year-Overall	-2.0%	2.1%	-8.0%	1.2%	7.9%	4.8%
% Same Store Sales Change from Prior Year	3.5%	4.0%	-6.8%	1.8%	4.1%	1.8%
Sales Mix By Type of Sale:						
Direct Sales	11.0%	6.0%	15.4%	8.5%	10.1%	11.4%
Warehouse Sales - Counter and Delivery	89.7%	94.0%	84.6%	91.5%	89.9%	88.6%
TOTAL SALES	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Showroom Sales as a % of Total Sales	5.0%	9.0%	1.5%	7.5%	5.8%	10.0%
Product Sales Mix:						
Plumbing Supplies & Equipment	90.0%	77.8%	7.8%	37.1%	29.7%	47.5%
Heating & Cooling Supplies & Equipment	0.0%	9.8%	1.4%	24.1%	28.1%	15.2%
P-V-F (Pipes-Valves-Fittings)	10.0%	6.9%	86.4%	27.6%	8.4%	27.3%
Other Supplies & Equipment	0.0%	2.1%	2.2%	6.3%	12.3%	3.6%
Other	0.0%	3.4%	2.3%	5.0%	21.6%	6.5%
TOTAL SALES	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GROSS MARGIN						
Gross Margin Before Purchase						
Rebates on Net Sales	20.4%	22.7%	24.5%	22.5%	24.1%	23.8%
Gross Margin After Purchase						
Rebates on Net Sales	25.4%	29.4%	27.9%	27.2%	29.0%	28.3%
Gross Margin on Direct Shipments	14.9%	15.0%	19.3%	18.1%	15.5%	16.6%
Gross Margin on Warehouse Sales	26.6%	26.6%	27.5%	28.1%	27.2%	27.6%
ASSET AND FINANCIAL MANAGEMENT						
Net Sales to Total Assets (times)	2.5	2.5	2.6	2.3	2.4	2.4
Current Asset Turn (Sales/Current Assets)	2.6	2.8	3.0	2.9	3.0	2.8
Total Assets to Net Worth (times)	2.2	1.7	1.9	1.9	1.8	1.9
Total Debt to Net Worth	121.0%	64.8%	98.9%	86.3%	93.9%	98.7%
Current Debt to Net Worth	48.5%	48.4%	34.6%	62.9%	61.8%	69.8%
CASH MANAGEMENT (WORKING CAPITAL) RATIOS						
Current Assets to Current Debt (x)	4.3	3.1	2.4	2.4	2.7	2.4
Current Assets Minus Inventory/Curr Debt (x)	2.5	1.3	1.3	1.1	1.2	0.9
Net Sales to Working Capital (x)	3.4	4.3	5.2	4.7	4.9	5.1
Net Profit Before Tax plus Depreciation to Net Sales (i.e., "Cash Flow Ratio")	10.8%	7.5%	3.7%	6.2%	5.7%	6.6%
Net Profit Before Tax plus Depreciation to Total Assets	26.7%	18.4%	9.9%	14.3%	25.7%	15.6%
Working Capital to Total Assets	73.3%	58.6%	52.3%	49.3%	47.7%	48.9%

PROFIT MODEL RATIOS

THE STRATEGIC PROFIT MODEL--A VALUABLE MANAGEMENT TOOL

The Strategic Profit Model is a method of summarizing financial performance and viewing its key components: margin management, asset management and financial policy management. The diagram below shows the ultimate measure of a firm's profitability, return on net worth, is determined by blocks 1), 2), and 3).

$$\begin{array}{ccccccc} \frac{\text{Net Profits}}{\text{Net Sales}} & \times & \frac{\text{Net Sales}}{\text{Total Assets}} & = & \frac{\text{Net Profits}}{\text{Total Assets}} & \times & \frac{\text{Total Assets}}{\text{Net Worth}} & = & \frac{\text{Net Profits}}{\text{Net Worth}} \\ \boxed{(1)} & \times & \boxed{(2)} & = & \boxed{} & \times & \boxed{(3)} & = & \boxed{} \end{array}$$

Block 1 shows net profit (before or after tax, but before tax is probably better) divided by net sales, or *profit margin*. This is a good summary measure of *margin management because in order to achieve an acceptable profit margin, a company must earn an acceptable gross margin while keeping expenses in line.*

Block 2 depicts net sales divided by total assets, or *asset turnover*. This is an overall measure of asset management. The ratio simply says *how many dollars in sales are being generated by each dollar of assets employed in running the business.*

Block 3, total assets divided by net worth determines *financial leverage*. This is nothing more than the degree to which debt is used to finance the business as opposed to net worth (or owner's investment).

Parts of the model's usefulness is that these three components multiply together to yield Return on Net Worth. Therefore, increases in any of the three components increase the overall profitability of the firm. Unfortunately, the opposite is also true.

THE Z SCORE

DIAGNOSING YOUR FIRM'S FINANCIAL HEALTH THROUGH THE "Z SCORE" RATING

THE Z SCORE DEFINED

One of the most challenging aspects of financial ratio analysis is that different ratios seem to give different answers to the simple question, "How did my firm do?" While Return On Net Worth is a good overall barometer of company profitability performance, another measure that has received widespread acclaim is the "Z Score."

The Z Score was originally created by Edward I. Altman in the mid 1960's to measure the likelihood of bankruptcy. Since then, it has withstood the test of time and is perhaps the most widely used of the many bankruptcy predictors that exist. While the Z Score is certainly not infallible, it is useful for providing a warning of possible trouble. But by no means should you use the Z Score as your only method of financial analysis.

To calculate the Z Score, simply take the figures for the four ratios, which Altman labeled as X1, X2, X3, and X4, and multiply them by the coefficients Altman derived from the experiences of many real companies he studied, then sum the results. This procedure is highlighted below.

The Z Score Bankruptcy Classification Model

Ratio Name	Ratio Calculation	Coefficient
X1 =	$\frac{\text{Working Capital}^*}{\text{Total Assets}}$	x 6.56
X2 =	$\frac{\text{Retained Earnings}^{**}}{\text{Total Assets}}$	x 3.26
X3 =	$\frac{\text{Earnings Before Interest \& Taxes}}{\text{Total Assets}}$	x 6.72
X4 =	$\frac{\text{Net Worth}}{\text{Total Liabilities}}$	x 1.05

$$Z \text{ Score} = X1 + X2 + X3 + X4$$

The Z Score is the sum of the above totals, where each total is derived by multiplying the ratio times the coefficient.

If the Z Score is:

- Greater than 2.6, this company is probably safe,
- Less than 1.1, the company is near or in bankruptcy,
- Between 1.1 and 2.6, the company is in possible trouble.

*Defined as current assets minus current liabilities.

**If retained earnings is not available, substitute *net worth*.

Source: *Corporate Financial Distress* by Edward I. Altman; John Wiley & Sons, 1983.

The Z Score As An Analytical Tool

In addition to predicting bankruptcy, the Z Score is also useful as a tool for analyzing your business. For example, if your Z Score begins to decline over time, this should be an indication that something is wrong. Each individual component of the Z Score can then be analyzed separately.

$$X1 = \frac{\text{Working Capital}}{\text{Total Assets}}$$

This is an indication of the firm's liquidity. Generally, if financial problems arise, working capital (i.e., current assets minus current liabilities) will fall more quickly than total assets, causing this ratio to decline.

$$X2 = \frac{\text{Retained Earnings}}{\text{Total Assets}}$$

This reflects the cumulative profitability of your company. Since an older firm will have had more time to build up accumulated profits, this ratio is obviously somewhat biased. However, when a firm starts to suffer profitability losses, retained earnings will decline and could even become negative.

DESCRIPTION OF OPERATING EXPENSE CATEGORIES

Selling Expenses

Selling executive salaries, commissions and bonuses; outside and inside salespeople salaries, commissions and bonuses; other selling personnel (clerical, secretarial and order takers) salaries, bonuses and wages; selling personnel fringe benefits (life insurance; hospitalization; other employee insurance; social security taxes; unemployment taxes; pension trust contributions; profit-sharing trust contributions; other employee welfare; officer's life insurance).

Selling related: supplies; stationery; printing; automobile expense; travel and entertainment; dues and memberships; conventions and meetings; education and training; advertising; promotions; brochures; catalogs; showrooms; merchandise shows; miscellaneous.

Delivery Expense

Delivery supervisor(s) salaries and bonuses; other delivery personnel (clerical, secretarial, drivers) salaries, bonuses and wages; delivery personnel fringe benefits (life insurance; hospitalization; other employee insurance; social security taxes; unemployment taxes; pension trust contributions; profit-sharing trust contributions; other employee welfare).

Delivery related: supplies; gas and oil; tires; other automotive supplies; towel and uniform services; trucks, automobiles and other equipment repairs and maintenance; insurance (automobiles and trucks); licenses; equipment rental; trucks, automobiles and other equipment depreciation; dues and memberships; education and training; travel and entertainment; delivery services (cartage, freight, express); miscellaneous.

Warehouse Expenses

Warehouse supervisor salaries and bonuses; other warehouse personnel (clerical, secretarial, laborers, and other) salaries, bonuses and wages; warehouse personnel fringe benefits (life insurance; hospitalization; other employee insurance; social security taxes; unemployment taxes; pension trust contributions; profit-sharing trust contributions; other employee welfare).

Warehouse related: supplies; towel and uniform services; equipment repairs and maintenance; insurance (inventory); equipment rental and depreciation; education and training; travel and entertainment; miscellaneous.

General Administrative Expenses

Executive salaries and bonuses; supervisor salaries and bonuses; other salaries and bonuses (including buyers/purchasing employees as well as data processing employees); general and administrative personnel fringe benefits (life insurance; hospitalization; other employee insurance; social security taxes; unemployment taxes; pension trust contributions; profit-sharing trust contributions; other employee welfare; officer's life insurance).

General and administrative related expenses (including purchasing and data processing expenses): supplies; stationery and printing; towel and uniform services; telephone; insurance (property, automotive, etc.); license, equipment and automobile rental; furniture and fixtures depreciation; automobile expense; data processing supplies and expenses; rental of data processing equipment; any data processing service fees; bank card fees; education and training; executive travel and entertainment; employment advertising; collection expense; cash over or short; donations; accounting services; legal services; other services; directors fees; miscellaneous. Also includes bad debts written off.

Occupancy Expenses

Facilities management supervisor salaries and bonuses; janitor and maintenance personnel wages; occupancy personnel fringe benefits (life insurance; hospitalization; other employee insurance; social security taxes; unemployment taxes; pension trust contributions, profit-sharing trust contributions; other employee welfare).

Janitor and maintenance supplies; building equipment repairs and maintenance; janitor services; building and building equipment insurance; real estate taxes; rent (if applicable); building equipment rental; utilities (power, light, water, heat); buildings and building equipment depreciation (if applicable); miscellaneous.

Other Operating Expenses

All operating expenses not specified above.