

Introduction

This report presents a detailed but straightforward analysis of financial and operating characteristics of 31 participating NAHAD firms. Results are presented in tables and graphs designed to provide a comprehensive guide for analyzing profitability.

Methodology

Survey questionnaires were mailed to all members to collect detailed financial and operating information. Completed questionnaires were returned directly to Profit Planning Group for analysis. Individual responses were kept strictly confidential by Profit Planning Group. No one from NAHAD or any other firm had access to any individual firm's survey or results.

Report Format

This report is organized into the following sections.

- **Executive Summary**
An overview of study results including a graphical presentation of key results.
- **Detailed Results**
An in-depth analysis of return on investment, the income statement, the balance sheet, and financial and productivity ratios.
- **Trends**
An examination of changes in performance over time for key results and ratios.
- **Compensation & Benefits**
An overview of employee compensation and benefits.
- **Ratio Calculation**
A summary of ratio calculations and supporting commentary.

Statistics

- **Medians**
Most of the figures presented in this report are based on median results. A median is the middle value in the sorted list of all reported values. Unlike averages, medians are not influenced by extreme values and are, therefore, the preferred statistic for this analysis. Medians best represent a typical firm's results.
- **High-Profit Group**
A high-profit group was identified based on pre-tax return on assets (ROA). This group includes firms with the top ROA results. The high-profit column presents results based on the medians of the data reported by these participants.
- **Averages for Inventory, Accounts Receivable, and Accounts Payable**
If available, calculations use average values for inventory, accounts receivable, and accounts payable.
- **FIFO Adjustment**
If LIFO reserve information was collected, cost of goods sold, gross margin, and inventory were adjusted to present FIFO performance.
- **The N/A Label**
Throughout this report, "N/A" designates results that are not available due to limited samples.

Executive Summary

Financial performance varied widely among participants in 2010. The results show a typical firm generated sales of \$8,111,949 and a pre-tax profit of 4.5%. Sales for the typical high-profit firm were \$7,461,590, with a profit of 8.9%. Of greatest consequence, the typical firm had a 12.6% pre-tax return on assets (profit before taxes expressed as a percentage of total assets) while the typical high-profit firm generated an ROA of 29.4%.

A number of factors led to the differences in overall results. In most instances these differences can be illustrated by examining what are commonly called the critical profit variables (CPVs). The following exhibit compares the critical profit variables for the typical firm and the typical high-profit firm.

The Critical Profit Variables

	<u>Typical NAHAD Distributor</u>	<u>High Profit NAHAD</u>
Sales per Employee Measures employee productivity	\$279,302	\$330,765
Gross Margin Percentage Reflects the ability to manage COGS effectively	38.1%	39.1%
Operating Expense Percentage Focuses on expense control	33.2%	29.8%
Inventory Turnover (times) Reflects how well inventory is managed	3.6	4.6
Average Collection Period (days) Reflects accounts receivable collection practices	48.5	46.6

High-profit firms may not always perform better in every CPV but their *combined* CPV performance produces better overall results. The following table presents a comparison of these results. Since these differences can dramatically improve operating performance it is important that every firm is aware of their impact.

An Overview of Financial Results

	<u>Typical NAHAD Distributor</u>	<u>High Profit NAHAD</u>
Income Statement		
Net Sales	\$8,111,949	\$7,461,590
Cost of Goods Sold	<u>5,021,296</u>	<u>4,544,108</u>
Gross Margin	3,090,653	2,917,482
Operating Expenses	<u>2,693,167</u>	<u>2,223,554</u>
Operating Profit	397,486	693,928
Other Income/Expenses	<u>-32,448</u>	<u>-29,846</u>
Profit Before Taxes	\$365,038	\$664,082
Profit Before Taxes (%)	4.5%	8.9%
Assets		
Cash	\$104,297	\$228,370
Accounts Receivable	903,903	870,519
Inventory	1,399,311	1,008,445
All Other Assets	<u>489,614</u>	<u>153,754</u>
Total Assets	\$2,897,125	\$2,261,088
Return on Assets (Pre-Tax)	12.6%	29.4%

Executive Summary

	Typical NAHAD <u>Distributor</u>	High Profit NAHAD
Number of Firms Reporting	31	8
Typical Sales Volume	\$8,111,949	\$7,461,590
Sales Change (2009 to 2010)	14.5%	16.0%
Strategic Profit Model Ratios		
Profit Margin (pre-tax)	4.5%	8.9%
Asset Turnover	2.8	3.3
Return on Assets (pre-tax)	12.6%	29.4%
Financial Leverage	1.7	1.6
Return on Net Worth (pre-tax)	21.4%	47.0%
Income Statement		
Net Sales	100.0%	100.0%
Cost of Goods Sold	<u>61.9</u>	<u>60.9</u>
Gross Margin	38.1	39.1
Operating Expenses		
Total Payroll Expenses	21.9	21.6
Total Occupancy Expenses	3.6	3.1
Total Other Operating Expenses	<u>7.7</u>	<u>5.1</u>
Total Operating Expenses	33.2	29.8
Operating Profit	4.9	9.3
Other Income/Expense	<u>-0.4</u>	<u>-0.4</u>
Profit Before Taxes	4.5%	8.9%
Financial Ratios		
Current Ratio	2.8	2.9
Quick Ratio	1.1	2.0
Accounts Payable to Inventory	26.6%	25.9%
Accounts Payable Payout Period (days)	21.8	19.4
Debt to Equity	0.7	0.6
EBIT to Total Assets	13.1%	26.2%
Times Interest Earned	9.0	36.1
Asset Productivity		
Cash Sales (% of net sales)	10.0%	6.0%
Average Collection Period (days)	48.5	46.6
Inventory Turnover	3.6	4.6
Inventory Holding Period (days)	101.7	78.8
Sales to Inventory Ratio	5.9	6.8
Gross Margin Return on Inventory	215.4%	260.9%
Growth & Cash		
Growth Potential Index	14.5%	26.5%
Cash Cycle (days)	128.4	106.0
Operations		
Sales per SKU	\$1,140	\$1,274
Sales per Customer	\$8,814	\$14,511
Sales per Invoice	\$407	\$407
Employee Productivity		
Sales per Employee	\$279,302	\$330,765
Gross Margin per Employee	\$102,135	\$107,861
Salary per Employee	\$55,321	\$47,335
Payroll per Employee	\$63,128	\$55,206
Personnel Productivity Ratio	57.5%	55.2%