

Design Company Example

Design Company Statement

Loan Risk

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Prediction








Based on estimated operating period liquidity, there may be a low probability of satisfactory loan repayment performance. See the following analysis to assess the estimated risk of loan payment.

LONG-TERM LIQUIDITY COMPARATIVE PERFORMANCE SCALES








	Return on Asset Investment ★☆☆☆☆
	Current performance shows that earnings on invested assets are well below the average for this industry and that this may lead to long-term lack of liquidity.
	Spread Between Earnings on Debt and Cost of Debt ★★★★☆
	Current performance shows that the spread between earning on debt and cost of debt is positive and this is likely to lead to long-term liquidity if this performance level is maintained.
	Gross Profit Margin ★★★☆☆
	Current performance shows that the gross profit margin is well below the average for the industry and that this firm is unlikely to have long-term liquidity.
	Assets to Sales ★★★★☆
	Current performance shows that sales on invested assets are well below the average for the industry and that this firm is unlikely to have long-term liquidity.

OPERATING PERIOD LIQUIDITY COMPARATIVE PERFORMANCE SCALES

	Net Balance Position ★ ★ ★ ★ ★
	Although above the industry average, the estimated cash liquidity of the company is negative and this raises concerns about operating period cash liquidity.
	Age of Inventory ★ ★ ★ ★ ★
	Current performance shows that gross profit margin is well above the average for the industry and this is likely to lead to long-term liquidity if this performance level is maintained.
	Collection Period ★ ★ ★ ★ ★
	The accounts receivable collection period of this firm is well above the average for the industry and increases the risk of cash shortages.
	Payment Deferral Period ★ ★ ★ ★ ★
	The payment deferral period for this firm is much too long for the industry and this increases the risk of cash shortages.
	Cash Conversion Cycle ★ ★ ★ ★ ★
	The cash conversion cycle of this firm is well above the average for the industry and this increases the risk of cash shortages.

Subjective Evaluation and Suggested Rates







GENERAL EVALUATION PERFORMANCE SCALES

	<p>Debt Service Coverage ★★★★★</p>
	<p>Does this company have debt service coverage of at least 1.5 times with demonstrated coverage over years of operation? This coverage should be after asset reinvestment, debt amortization and normal distribution to owners and bonuses to key employees.</p>
	<p>Collateral Coverage and Liquidity ★★★★★</p>
	<p>What is the amount, quality and liquidity of collateral provided by the applicant and is it at least 1.5 times the amount of the loan?</p>
	<p>Management Team ★★★★★</p>
	<p>How does the management team of the firm compare to leaders in the industry? If the firm is small, are advisors used to provide management functional area expertise? When evaluating the management strengths of the applicant, consider the following: Training and experience of key managers; The owner and/or top management; Are all functional areas of management covered adequately; The board of directors or advisors (successful companies use boards); The quality of the attorney and accountant used by the firm; The quality and compatibility of investors (if any); and, Equity or incentive plans to retain key managers; The use of consultants, especially peer consultants through organizations such as TEC.</p>
	<p>Market Viability ★★★★★</p>
	<p>When assessing the market viability for the firm, consider the following: Is there a clear market definition both in terms of demographics and geographic area served?; Is the market segmented with a clear position for the firm?; Are there any environmental trends that may have an impact on the market?; and What is the market structure and position of the firm in this market?</p>
	<p>Product/Service Viability ★★★★★</p>
	<p>Is there a clear product/service definition that identifies customer needs? Does the product/service have a sustainable competitive advantage? Does the firm have a demonstrated sustainable advantage when compared to competitors?</p>
	<p>Financial Management ★★★★★</p>
	<p>When evaluating the financial management of a firm, look at the benchmarks to determine if financial performance has been demonstrated in the past. You also should look at the following: Does the company prepare sales forecasts, cost analysis, marketing and sales plans, pro forma income statements, pro forma balance sheets, pro forma cash flow statements, pro forma capital budgets, financial evaluations, animation from budget financial decision making. Is the company willing to use financial analysis and decision-making software?</p>
	<p>Risk Identification and Management ★★★★★</p>
	<p>Has the company identified key risks, evaluated the risks and probability of occurrence, and made contingency plans for risk management?</p>

SUGGESTED INTEREST RATE: 6.64 %

Industry Subjective Evaluation

GENERAL EVALUATION PERFORMANCE SCALES

	<p>Location ★★★★★</p> <p>Location is one of the most important success variables for service businesses and a good location is often essential for firm success. Compared to competitors, how does this firm's location influence their competitive position?</p>
	<p>Direct and Indirect Competition ★★★★★</p> <p>The intensity of competition has a major impact on the success of service businesses. Based on your knowledge of the market, how intense is the direct and indirect competition of this business (both current and projected)?</p>
	<p>Collection Period ★★★★★</p> <p>Successful service businesses understand the importance of invoicing and collecting on a timely basis. Compared to other firms in the industry, how does the collection period compare (see benchmark)?</p>
	<p>Staffing and Personnel Management (Sales/Billings Per Employee) ★★★★★</p> <p>Successful service firms have high sales/billings and profits per employee and unsuccessful firms tend to over staff without supporting billings or sales. How does this firms billings/sales and profits per employee (see benchmark) compare to similar firms in the industry?</p>
	<p>Information Systems ★★★★★</p> <p>To be successful in a service business, it is important to keep track of customer-buying data, trends and cyclical data. How does this firm's information system compare to leaders in their industry?</p>
	<p>Technical Expertise of Staff ★★★★★</p> <p>Most service businesses owe their success to the technical competence of their staff. How does the technical expertise of the staff of this business compare to leaders in the industry?</p>

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