Analyzing Repayment Sources

Reference Guide

breaking into banking

Example Bank

Income Statement

A bank's primary sources of revenue

Interest & Fee Income

(Interest Expense)

Interest paid by bank to depositors

Net Interest Income

(Provision for Credit Losses)

Money set aside based on the Expected Loss of all existing loans

Net Interest Income after Provision

Other Income

(Personnel Expense)

(Other Expenses)

Profit Before Taxes

(Income Tax Expense)

Net Income

Company Summary

Auto MetalBending, Inc.

Auto MetalBending, Inc. (AMB) is a U.S. corporation engaged in the manufacture of hoods and other body panels for the automotive industry. The company began in 1992 as a supplier to Toyota when that car maker opened its first plant in AMB's home state. Over the past three decades AMB has begun selling to other car makers, and in recent years has also begun supplying a few select auto body shops in an effort to generate additional revenue.

The company has grown steadily as a result of its reputation as a dependable manufacturer of high quality automobile panels. It uses proprietary bending and stamping technology to minimize errors and scrap, allowing it to enjoy gross profit margins superior to many of its competitors.

AMB purchases sheet metal from various suppliers in the U.S. and abroad and enjoys a good relationship with all its suppliers. Historically the company has offered its customers 30-day terms, though its leniency in collection of A/R is well-known throughout the industry.

Last year the company won a large contract to supply hoods to Honda of America for its Civic and Accord models. This contract required AMB to invest significantly in additional manufacturing equipment that is now operating at its main facility.

AMB's bank has provided financing for all of the company's capital expenditures over the past ten years, and also extends a working capital line of credit with a limit of $20 million.

Detailed Balance Sheet - Actual

Auto MetalBending, Inc.			Amounts Printed in Thousands
Industry Classification: NAICS Code: 336370			
Statement Date	12/31/20X1	12/31/20X2	12/31/20X3
Months Covered	12	12	12
Audit Method	Reviewed	Reviewed	Reviewed
Accountant	C. Brown, CPA	C. Brown, CPA	C. Brown, CPA
Analyst	ATK	ATK	ATK
Stmt Type	Annual	Annual	Annual
CURRENT ASSETS			
Cash	4,473	3,461	3,336
Accts Rec - Trade	15,723	13,528	13,809
Raw Materials	4,947	5,751	6,401
Work in Process	1,501	1,645	1,702
Finished Goods	1,551	1,385	1,906
Total Inventory	7,999	8,781	10,009
Other Current Assets	2,023	1,882	2,030
TOTAL CURRENT ASSETS	30,218	27,652	29,184
NON-CURRENT ASSETS			
Land & Buildings, net	10,029	11,285	11,309
Property, Plant, Equip, net	17,173	20,001	24,886
Furniture & Fixtures, net	1,464	1,370	1,711
Other Assets	403	511	600
TOTAL NON-CURRENT	29,069	33,167	38,506
TOTAL ASSETS	59,287	60,819	67,690
CURRENT LIABILITIES			
Note Payable - Bank	4,423	3,029	5,555
CPLTD - Bank	3,207	3,666	4,513
Accounts Payable	8,918	9,474	12,008
Accrued Expenses	5,858	6,026	` 6,340
TOTAL CURRENT LIAB.	22,406	22,195	28,416
NON-CURRENT LIAB.			
Long Term Debt - Bank	17,475	20,988	24,966
TOTAL NON-CURRENT	17,475	20,988	24,966
TOTAL LIABILITIES	39,881	43,183	53,382
NET WORTH			
Common Stock	100	100	100
Retained Earnings	17,854	18,347	19,027
TOTAL NET WORTH	17,954	18,447	19,127
TOTAL LIAB & WORTH	59,287	60,819	67,690

Detailed Comprehensive Income Statement - Actual and %

Auto MetalBending, Inc. — Amounts Printed in Thousands

Industry Classification: NAICS Code: 336370

Statement Date	12/31/20X1		12/31/20X2		12/31/20X3	
Months Covered	12		12		12	
Audit Method	Reviewed		Reviewed		Reviewed	
Accountant	C. Brown, CPA		C. Brown, CPA		C. Brown, CPA	
Analyst	ATK		ATK		ATK	
Stmt Type	Annual		Annual		Annual	
SALES / REVENUE	86,912	100.0	91,420	100.0	105,854	100.0
COGS - Materials	54,021	62.2	57,330	62.7	66,830	63.1
COGS - Labor	17,883	20.6	19,011	20.8	22,042	20.8
COGS - Depreciation	2,757	5.1	3,015	5.3	3,301	4.9
Cost of Goods Sold	74,661	85.9	79,356	86.8	92,173	87.1
GROSS PROFIT	12,251	14.1	12,064	13.2	13,681	12.9
SG&A Expense	8,023	9.2	8,674	9.5	9,434	8.9
Depreciation	306	0.4	335	0.4	367	0.3
TOTAL OPERATING EXP	8,329	9.6	9,009	9.9	9,801	9.3
NET OPERATING PROFIT	3,922	4.5	3,055	3.3	3,880	3.7
Interest Expense	864	1.0	1,220	1.3	1,568	1.5
Other Expenses	224	0.3	255	0.3	133	0.1
PROFIT BEFORE TAXES	2,834	3.3	1,580	1.7	2,179	2.1
Current Income Tax	623	0.7	348	0.4	479	0.5
NET PROFIT	$2,211	2.5	$1,232	1.3	$1,700	1.6

EBITDA Calculation:

Net Profit			
+ Income Tax Expense			
+ Interest Expense			
+ Depreciation Expense			
= EBITDA			

Detailed Reconciliations

Auto MetalBending, Inc. | Amounts Printed in Thousands

Industry Classification: NAICS Code: 336370

Statement Date	12/31/20X1	12/31/20X2	12/31/20X3
Months Covered	12	12	12
Audit Method	Reviewed	Reviewed	Reviewed
Accountant	C. Brown, CPA	C. Brown, CPA	C. Brown, CPA
Analyst	ATK	ATK	ATK
Stmt Type	Annual	Annual	Annual

Reconciliation of Retained Earnings

BEGINNING RETAINED EARNINGS		17,854	18,347
Net Profit		1,232	1,700
Dividends - Common		739	1,020
ENDING RETAINED EARNINGS		18,347	19,027

Auto MetalBending, Inc.
A/R Aging Report
as of 12/31/20X3 ($000)

Customer Name	Current	31-60 Days	61-90 Days	90+ days	Total
BMW	$1,855	$0	$0	$0	$1,855
Daimler	$1,623	$205	$0	$0	$1,828
Volkswagen	$1,077	$0	$0	$343	$1,420
Toyota	$1,240	$0	$0	$0	$1,240
Honda of America Mfg.	$991	$0	$0	$0	$991
Fred's Precision Panels, Inc.	$249	$0	$23	$483	$755
Taylor Auto Body LLC	$334	$105	$116	$0	$555
Ford Motor Co.	$514	$0	$0	$0	$514
Other	$3,799	$423	$329	$100	$4,651
Total	$11,682	$733	$468	$926	$13,809

Auto MetalBending, Inc.

Borrowing Base Certificate (12/31/20X3)

		Accounts Receivable	Inventory	Total
Collateral as of:	12/31/20X3	$13,809	$10,009	$23,818
Less Ineligible Accounts as of:	12/31/20X3	$1,198	$1,702	$2,900
Eligible Collateral		$12,611	$8,307	$20,918
Rate of Advance:		80%	50%	
Net Collateral		$10,089	$4,154	$14,242
Line of Credit Limit:				20,000
Less Line Balance as of:	12/31/20X3			$5,555
Net Availability as of:	12/31/20X3			$8,687

Key Formulas

Lesson 2 - Liquidity

Working Capital = Current Assets - Current Liabilities

Current Ratio = (Current Assets) ÷ (Current Liabilities)

Quick Ratio = (Current Assets excluding inventory) ÷ (Current Liabilities)

A/P Turnover Days = (Accounts Payable x 365) ÷ (Cost of Goods Sold Expense)

INV Turnover Days = (Inventory x 365) ÷ (Cost of Goods Sold Expense)

A/R Turnover Days = (Accounts Receivable x 365) ÷ (Revenues)

Lesson 3 - Leverage

Debt / Net Worth = (Total Liabilities) ÷ (Net Worth)

Debt / Tangible Net Worth = (Total Liabilities) ÷ (Net Worth - Intangible Assets)

Sr. Liabilities / Effective Net Worth = (Total Liabilities - Subordinated Debt) ÷ (Net Worth - Intangible Assets + Subordinated Debt)

Debt / Capitalization = (CPLTD + Senior Debt + Subordinated Debt) ÷ (Net Worth + CPLTD + Senior Debt + Subordinated Debt)

Debt / EBITDA = (Total Liabilities) ÷ EBITDA

Lease-adjusted Leverage = (Total Liabilities + [multiple] Annual Operating Lease Expense) ÷ (EBITDA + Annual Lease Expense)

Lesson 4 - Revenues and Profit Margins

Revenue Growth = (Current Year's Revenues - Prior Year's Revenues) ÷ (Prior Year's Revenues)

COGS for a Retailer / Wholesaler = Beginning Inventory + Purchases this year - Ending Inventory

COGS for Manufacturer = Cost of **Raw Materials** + Value added through **labor** + **Depreciation** related to facilities and equipment

Operating Expense Ratio = (Total Operating Expenses) ÷ (Revenues)

Return on Assets (ROA) = (Net Profit) ÷ (Total Assets)

Lesson 5 - Coverage Ratios

Debt Service = (Prior Year's CPLTD) + (Current Year's Interest Expense)

Maintenance Capital Expenditures = (Current Year's Net Fixed Assets - Prior Year's Net Fixed Assets) x 0.20

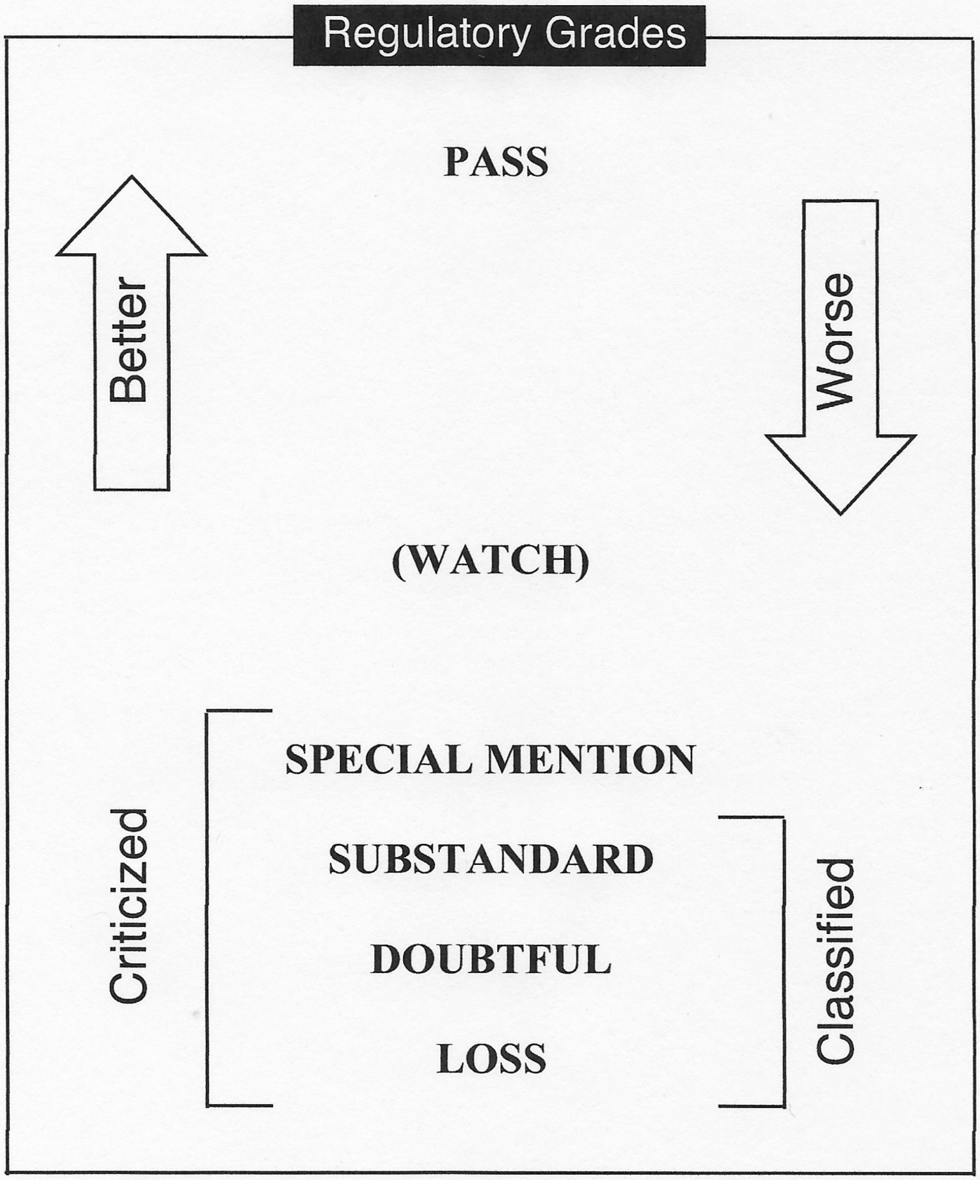
EBITDA = Net Profit + Interest Expense + Income Tax Expense + Depreciation Expense + Amortization Expense

Debt Service Coverage = (EBITDA) ÷ (Debt Service)

Fixed Charge Coverage = (EBITDA) ÷ (Debt Service + Income Tax Expense + Maintenance CapEx + Dividends)

Key Ratios

	12/31/20X1	12/31/20X2	12/31/20X3
Debt / Net Worth	2.2	2.3	2.8
Debt / EBITDA	5.9	7.0	7.2
Current Ratio	2.6	2.7	2.4
Quick Ratio	1.0	0.9	0.7
A/R Turnover Days	66	54	48
INV Turnover Days	39	40	40
A/P Turnover Days	44	44	48
Dividends		739	1,020
Net Fixed Assets	28,666	32,656	37,906
Change Net Fixed Assets	N/A	3,990	5,250
20% of Change in NFA	N/A	798	1,050
DSC Ratio	1.7	1.4	1.3
FCC Ratio	N/A	0.97	0.95
Return on Assets	3.7	2.0	2.5


Regulatory Grades
PASS
Better
Worse
(WATCH)
SPECIAL MENTION
SUBSTANDARD
DOUBTFUL
LOSS
Criticized
Classified

Regulatory Classification Definitions (from OCC Handbook)

Special mention (SM)

"A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification."

Substandard

"A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected."

Doubtful

"An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable."

Loss

"Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future."