



2015

Operating Costs Report

Figures Based on 2014 Financial Data

SAMPLE

Prepared By
Mackay Research Group



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Prepared For:
National Tooling & Machining Association
1357 Rockside Road
Cleveland, OH 44134
800/248-6862 (voice)
301/248-7104 (fax)
www.ntma.org

©2015 NTMA

Prepared By:
Mackay Research Group
4494 Coolidge Place
Boulder, Colorado 80303
www.mackayresearchgroup.com

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Introduction

The 2015 NTMA Operating Costs Report, based on 2014 data, provides detailed financial results of precision custom tooling and machining manufacturers. Results profiled in this report are based on income statement, balance sheet, and operating data provided by 168 precision custom manufacturers. The tables and graphs contained in this report are designed to provide comprehensive, yet straightforward guidelines for analyzing profitability among precision tooling and machining companies. This management tool is designed to provide the resources that enable NTMA members to evaluate, plan, and better manage their businesses.

Report Format

This report is presented in five sections: Executive Summary, Detailed Results, Analysis By Industry Classification, Category Sales Volume Analysis, and the Appendix.

- **Executive Summary**—The summary provides an overview of the study results, with emphasis on the differences between the typical firm and the high profit company.
- **Sales Volume Category Results**—This section examines return on investment, income statement, balance sheet and financial ratios. Management commentary is provided to help non-financial managers more easily understand the meaning and importance of these critical operating statistics. Columns displayed in this section of the report include the Typical NTMA Manufacturer, the High Profit NTMA manufacturer, and results for eight sales volume categories of manufacturers.
- **Analysis By Industry Classification**—An in-depth review of performance for NTMA precision custom manufacturers based on their concentration of business by sector. Manufacturers in the survey reported sales volume by industry segment (Tools & Dies, Molds, General Precision Machining, Aerospace Machining, Production Operations, and Sheet Metal Fabrication). Survey participants were then classified based on the primary industry category served.
- **Industry Classification by Sales Volume Category Analysis**—This section provides sales volume category detail for each of the industry classifications above. This allows for more precise comparisons within an industry group.
- **Trend Analysis**—The Trend Analysis section highlights by industry classification how performance has changed over time on key measures.

Explanation of Statistics

Almost all of the figures provided in this report are medians. The median for a particular variable or calculation is the middle number of all values reported arranged from lowest to highest. The median represents the typical company's results. The median is not influenced by any extremely high or low values reported. An average or mean value, on the other hand, may be influenced by extreme values. Thus, the median is the preferred statistic for this analysis.

To determine the group of high profit firms, all participating firms are ranked on the basis of pre-tax return on assets (ROA). The high profit category includes the top twenty-five percent of the firms based on ROA. The figures reported for the high profit firms represent a median.

Please note that throughout the report, "N/A" designates numbers that are not available due to limited sample size.

Each NTMA member that participated received a personalized Financial Performance Report (FPR). The Financial Performance Report contains comparisons of the firm's financial performance to the industry. Areas where improvement opportunities exist are indicated and specific suggestions are provided to help achieve higher profitability.

Balance Sheet

The balance sheet reflects the financial stability of the firm. As such it indicates how much money is invested in the business and where those investments are centered, and how much money is owed to various creditors and the value to the owners. The balance sheet is a picture of the position of a business at the end of the accounting period. As the name implies, the balance sheet must balance!

Assets = Liabilities + Net Worth.

Assets

The asset portion of the balance sheet represents the total investment made in the company.

Cash & Marketable Securities — The amount of money that your company has in completely liquid assets. It includes cash in the bank and short-term marketable securities (such as certificates of deposit).

Accounts Receivable—or uncollected credit sales, are dollars currently unavailable to meet cash obligations. Offering credit terms to customers is essentially a tool to facilitate sales. The resulting accounts receivable, however, should be viewed as loans to customers.

Inventory- represents the firm's investment in merchandise on hand. Excessive inventory is expensive. Inventory carrying costs may include interest, personal property taxes, markdowns, and shrinkage. However, inventory shortages may hinder sales productivity if out-of-stock items become lost sales.

Total Current Assets — The total amount of your firm's investment in assets that can be converted to cash in less than one year. Current Assets includes cash, accounts receivable, inventory and other current assets

Fixed Assets — Cash flow could improve with tighter management of fixed assets, especially when it comes to selling surplus or idle assets. In order to improve earnings managers must efficiently deploy idle/surplus assets internally or dispose of them. If the utilization of fixed assets are not tracked, through mechanisms such as service & repair records of equipment, the company could face future write-offs, thereby damaging profitability.

Liabilities and Net Worth

Liabilities and net worth are sources of capital that finance company assets.

Liabilities — Liabilities reflect financing by outside creditors. Such funds may be provided by suppliers who have sold merchandise to the firm on credit (accounts payable), as well as individuals or financial institutions that have loaned the company money (short or long term notes payable).

Net Worth — Where as liabilities are funds provided from outside the firm, net worth represents funds provided from inside the company. Net worth is the sum of the owners' paid-in capital, plus loans from owners, plus all earnings retained in the business. Net worth is the only money financing the business which carries no stated return. As such, the owners' investment carries 100% risk; it is totally dependent on the financial performance of the firm. Therefore, the rate of return on net worth or owners' equity should be a rate that justifies the risk being taken in the business.

	Typical NTM Mfr.	High Profit Mfr.	Tools & Dies	Molds	General Precision Machining	Aerospace Machining/ Fabrication	Production Operations	Sheet Metal Diversified Fabrication
Assets								
Cash & Marketable Securities	9.4%	18.3%	25.4%	10.3%	11.0%	7.3%	7.0%	2.9%
Accounts Receivable	27.2	28.1	30.5	23.1	24.9	28.7	24.0	23.8
Inventory	23.6	17.1	16.1	14.4	21.5	31.5	24.7	20.5
Other Current Assets	<u>1.3</u>	<u>0.7</u>	<u>0.9</u>	<u>0.3</u>	<u>1.3</u>	<u>1.0</u>	<u>1.2</u>	<u>1.5</u>
Total Current Assets	61.5	64.2	72.9	48.1	58.7	68.5	56.9	48.7
Fixed Assets Original Value	121.4	113.7	101.4	99.0	136.8	104.9	121.9	143.7
Accumulated Depreciation	<u>-83.3</u>	<u>-79.1</u>	<u>-74.3</u>	<u>-57.0</u>	<u>-96.0</u>	<u>-73.5</u>	<u>-79.4</u>	<u>-96.0</u>
Net Fixed Assets	38.1	34.6	27.1	42.0	40.8	31.4	42.5	47.7
Other Noncurrent Assets	<u>0.4</u>	<u>1.2</u>	<u>0.0</u>	<u>9.9</u>	<u>0.5</u>	<u>0.1</u>	<u>0.6</u>	<u>3.6</u>
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities And Net Worth								
Accounts Payable	8.2%	7.2%	5.4%	3.5%	8.2%	6.9%	9.8%	8.4%
Notes Payable	3.5	1.5	2.2	2.3	5.2	2.6	3.2	8.1
Other Current Liabilities	<u>6.1</u>	<u>6.0</u>	<u>10.2</u>	<u>10.5</u>	<u>6.2</u>	<u>4.7</u>	<u>3.9</u>	<u>8.9</u>
Total Current Liabilities	17.8	14.7	17.8	16.3	19.6	14.2	16.9	25.4
Long Term Liabilities	18.7	8.9	8.6	32.5	19.5	17.4	21.5	26.2
Net Worth Or Owner Equity	<u>63.5</u>	<u>76.4</u>	<u>73.6</u>	<u>51.2</u>	<u>60.9</u>	<u>68.4</u>	<u>61.6</u>	<u>48.4</u>
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%