Introduction to
Annual Statement Studies:
Financial Ratio Benchmarks,
2007-2008
and
General Organization of Content

The notes below will explain the presentation of Annual Statement Studies: Financial Ratio Benchmarks, show clearly how the book is organized, and answer most of your questions.

• The Quality You Expect from RMA: RMA is the most respected source of objective, unbiased information on issues of importance to credit risk professionals. For over 88 years, RMA’s Annual Statement Studies has been the industry standard for comparative financial data. Material contained in today’s Annual Statement Studies was first published in the March 1919 issue of the Federal Reserve Bulletin. In the days before computers, the Annual Statement Studies data was recorded in pencil on yellow ledger paper! Today, it features data for over 740 industries derived directly from more than 265,000 statements of financial institutions’ borrowers and prospects.

• Data That Comes Straight from Original Sources: The more than 265,000 statements used to produce the composites presented here come directly from RMA member institutions and represent the financials from their commercial customers and prospects. RMA does not know the names of the individual entities. In fact, to ensure confidentiality, company names are removed before the data is even delivered to RMA. The raw data making up each composite is not available to any third party.

• Data Presented in Common Size: Annual Statement Studies: Financial Ratio Benchmarks contains composite financial data. Balance sheet and income statement information is shown in common size format, with each item a percentage of total assets and sales. RMA computes common size statements for each individual statement in an industry group, then aggregates and averages all the figures. In some cases, because of computer rounding, the figures to the right of the decimal point do not balance exactly with the totals shown. A minus sign beside the value indicates credits and losses.

• Includes Most Widely Used Ratios: Nineteen of the most widely used ratios in the financial services industry accompany the balance sheet information, including various types of liquidity, coverage, leverage, and operating ratios.

• Organized by the NAICS for Ease of Use: This edition is organized according to the North American Industry Classification System (NAICS), a product of the U.S. Office of Management and Budget. At the top of each page of data, you will find the NAICS, plus cross-references to the Standard Industrial Classification (SIC) codes. A NAICS code may correspond to more than one SIC, so there may be several SICs listed. If a NAICS code maps to more than three SIC codes, only the first three SICs will be listed at the top of the page, with all corresponding SIC codes found in the NAICS description index.

• Twenty Sections Outline Major Types of Businesses: To provide further delineation, the book is divided into 20 sections outlining major lines of businesses. If you know the NAICS number you are looking for, use the NAICS-page guide provided in the front of this book. If you know the SIC number you are looking for, refer to the SIC-page guide also provided in the front of the book. In general, the book is arranged in ascending NAICS numerical order. For your convenience, full descriptions of each NAICS are presented in this book. In addition, you will find a text-based index near the end of the book.

• If You Do Not Know the NAICS or SIC Code You Are Looking for... If you do not know the precise industry NAICS/SIC you are looking for, contact the Census Bureau at 1-888-755NAICS or naics@census.gov. Describe the activity of the establishment for which you need an industry code and you will receive a reply. Another source to help you assign the correct NAICS/SIC industry name and number can be found at www.census.gov/epcd/www/naics.html.

• Can’t Find the Industry You Want? There are a number of reasons you may not find the industry you are looking for (i.e., you know you need industry xxxxxx but it is not in the product). Many times we have information on an industry, but it is not published because the sample size was too small or there were significant questions concerning the data. (For an industry to be displayed in the Annual Statement Studies: Financial Ratio Benchmarks, there must be at least 30 valid statements submitted to RMA.) In other instances, we simply do not have the data. Generally, most of what we receive is published.

• Composite Data Not Shown? When there are fewer than 10 financial statements in a particular asset or sales size category, the composite data is not shown because a sample this small is not considered representative and could be misleading. However, all the data for that industry is shown in the All Sizes column. The total number of statements for each size category is shown in bold print at the top of each column. In addition, the number of statements used in a ratio array will differ from the number of statements in a sample because certain elements of data may not be present in all financial statements. In these cases, the number of statements used is shown in parentheses to the left of the array.
• **Presentation of the Data on Each Page-Spread:** For all non-contracting spread statements, the data for a particular industry appears on both the left and right pages. The heading Current Data Sorted by Assets is in the five columns on the left side. The center section of the double-page presentation contains the Comparative Historical Data, with the All Sizes column for the current year shown under the heading 4/1/xx-3/31/xx. Comparable data from past editions of the *Annual Statement Studies: Financial Ratio Benchmarks* also appears in this section. Current Data Sorted by Sales is displayed in the five columns to the far right.

• **Companies with Less than $250 Million in Total Assets:** In our presentation, we used companies having less than $250 million in total assets—except in the case of contractors who use the percentage-of-completion method of accounting. The section for contractors using the percentage-of-completion method of accounting contains data only sorted by revenue. There is no upper limit placed on revenue size for any industry. Its information is found on only one page.

• **Page Headers:** The information shown at the top of each page includes the following: 1) the identity of the industry group; 2) its NAICS number and its SIC number; 3) a breakdown by size categories of the types of financial statements reported; 4) the number of statements in each category; 5) the dates of the statements used; and 6) the size categories. For instance, 16 (4/1-9/30/06) means that 16 statements with fiscal dates between April 1 and September 30, 2006, make up part of the sample.

• **Page Footers:** At the bottom of each page, we have included the sum of the sales (or revenues) and total assets for all the financial statements in each size category. This data allows recasting of the common-size statements into dollar amounts. To do this, divide the number at the bottom of the page by the number of statements in that size category. Then multiply the result by the percentages in the common-size statement.

• **Our Thanks to CFMA:** RMA appreciates the cooperation of the Construction Financial Management Association (CFMA) in permitting us to reproduce excerpts from its *Construction Industry Annual Financial Survey*. This data complements the RMA contractor industry data.

• **Recommended for Use as General Guidelines:** RMA recommends you use *Annual Statement Studies: Financial Ratio Benchmarks* data only as general guidelines and not as absolute industry norms. There are several reasons why the data may not be fully representative of a given industry:

1. **Data Not Random**—The financial statements used in the *Annual Statement Studies: Financial Ratio Benchmarks* are not selected by any random or statistically reliable method. RMA member banks voluntarily submit the raw data they have available each year with no limitation on company size.

2. **Categorized by Primary Product Only**—Many companies have varied product lines; however, the *Annual Statement Studies: Financial Ratio Benchmarks* categorizes them by their primary product NAICS/SIC number only.

3. **Small Samples**—Some of the industry samples are small in relation to the total number of firms for a given industry. A relatively small sample can increase the chances that some composites do not fully represent an industry.

4. **Extreme Statements**—An extreme or outlier statement can occasionally be present in a sample, causing a disproportionate influence on the industry composite. This is particularly true in a relatively small sample.

5. **Operational Differences**—Companies within the same industry may differ in their method of operations, which in turn can directly influence their financial statements. Since they are included in the sample, these statements can significantly affect the composite calculations.

6. **Additional Considerations**—There are other considerations that can result in variations among different companies engaged in the same general line of business. These include different labor markets, geographical location, different accounting methods, quality of products handled, sources and methods of financing, and terms of sale.

For these reasons, RMA does not recommend using the *Annual Statement Studies: Financial Ratio Benchmarks* figures as absolute norms for a given industry. Rather, you should use the figures only as general guidelines and as a supplement to the other methods of financial analysis. RMA makes no claim regarding how representative the figures printed in this book are.