

Design Company Example

Design Company Statement

Growth Potential

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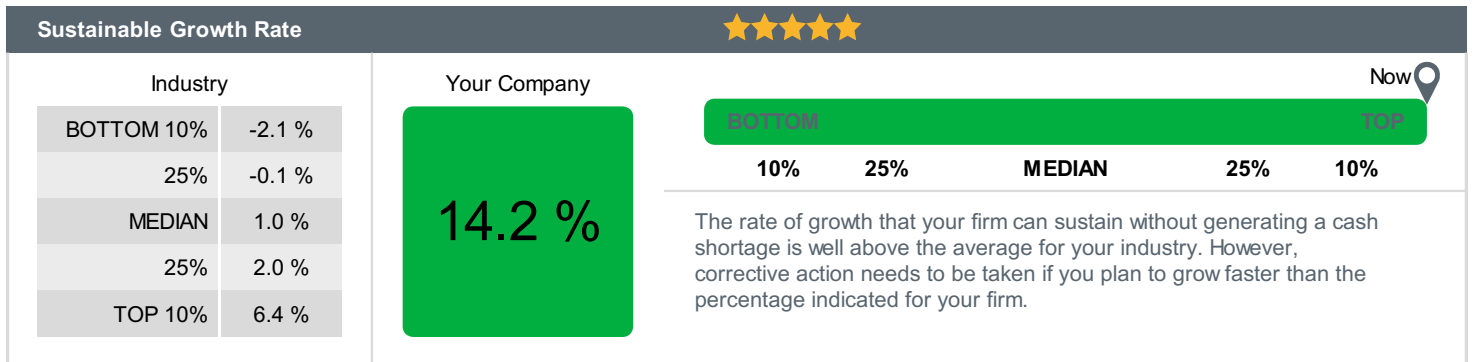
SUSTAINABLE GROWTH RATE INDICATOR

The Sustainable Growth Rate (SGR) analysis provided here is meant to give you an indication of how fast your firm can grow given its current capitalization. The formula used for calculating SGR developed by Robert Higgins includes the percentage of profit returned to the company's owners and your accurate estimate of it will be important for this analysis.

PROJECTED RETURN TO OWNERS

Assumed %

Assuming that the Projected Return to Owners of your peers in the industry is 33% of their Net Profits, your Sustainable Growth Rate compares to that of your peers as follows:



If the growth rate you have planned for your company exceeds the rate computed above, review the next two pages to help you design a strategy to improve Sustainable Growth Rate.

SUSTAINABLE GROWTH RATE IMPROVEMENT WORKSHEET I

Method 1

Net Profit Margin

Increase needed:

- Price Increase

Assumed %

- Expenses Decrease

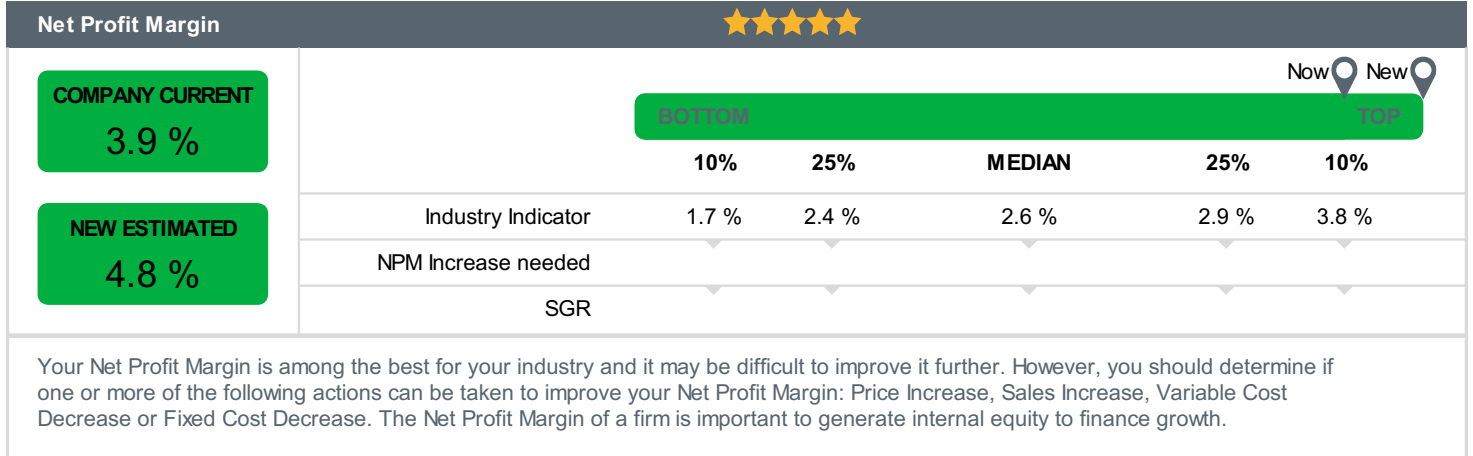
Assumed %

results in Return on Sales Increase of

29.4 %

and SGR of

19.2 %



Method 2

Debt to Equity Ratio Increase

- Debt Increase

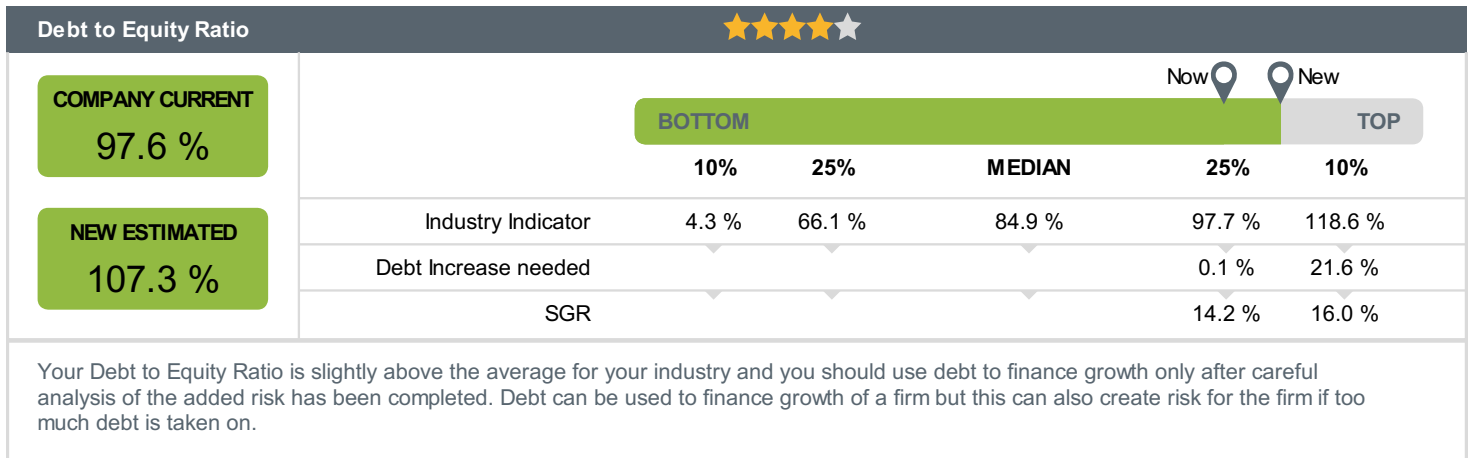
Assumed %

results in Debt to Equity Increase of

10 %

and SGR of

15 %



SUSTAINABLE GROWTH RATE IMPROVEMENT WORKSHEET II

Method 3

Return to Owners Decrease

Assumed %

and SGR of %

When profits are distributed to owners, you reduce the ability of your firm to finance growth through internally generated equity of retained earnings. The average firm returns around 33% of profits to owners and Sustainable Growth Rate can be improved by decreasing this rate of return.

Method 4

Assets to Sales Ratio Decrease

- Sales Increase

Assumed %

- Assets Decrease

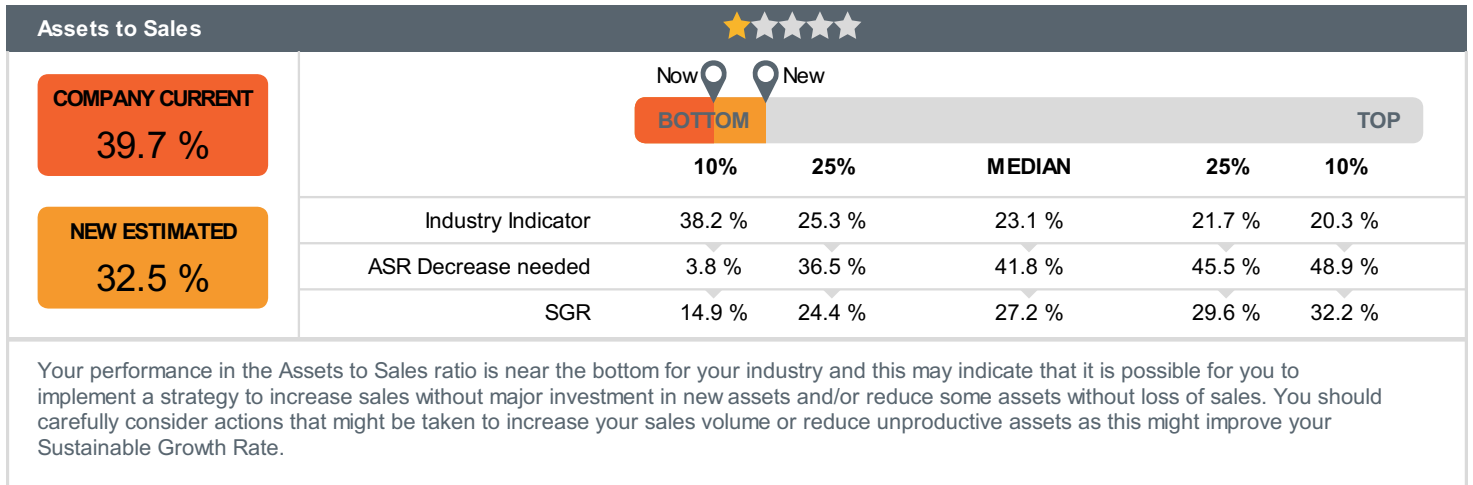
Assumed %

results in Assets to Sales Decrease of

%

and SGR of

%



OVERALL EFFECT

The results of the methods of SGR improvement shown above are based on the assumption that each of them is applied separately, whereas a combination of them could be both more realistic and effective. If you find it possible to implement all of the above methods at the rates specified, the overall effect of that will be as follows:

Resulting SGR

%