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 33 %

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:

Sustainable Growth Rate ★★★★★

Industry

BOTTOM 10%	-2.1 %
25%	-0.1 %
MEDIAN	1.0 %
25%	2.0 %
TOP 10%	6.4 %

Your Company

14.2 %

Now

BOTTOM TOP

10% **25%** **MEDIAN** **25%** **10%**

The rate of growth that your firm can sustain without generating a cash shortage is well above the average for your industry. However, corrective action needs to be taken if you plan to grow faster than the percentage indicated for your firm.

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 1 %

- Expenses Decrease

Assumed 1 %

results in Return on Sales Increase of 29.4 % *and SGR of* 19.2 %

Net Profit Margin

★★★★★

COMPANY CURRENT
3.9 %

NEW ESTIMATED
4.8 %

Now New

BOTTOM TOP

	10%	25%	MEDIAN	25%	10%
Industry Indicator	1.7 %	2.4 %	2.6 %	2.9 %	3.8 %
NPM Increase needed					
SGR					

Your Net Profit Margin is among the best for your industry and it may be difficult to improve it further. However, you should determine if one or more of the following actions can be taken to improve your Net Profit Margin: Price Increase, Sales Increase, Variable Cost Decrease or Fixed Cost Decrease. The Net Profit Margin of a firm is important to generate internal equity to finance growth.

Method 2 **Debt to Equity Ratio Increase**

- Debt Increase

Assumed 10 %

results in Debt to Equity Increase of 10 % *and SGR of* 15 %

Debt to Equity Ratio

★★★★☆

COMPANY CURRENT
97.6 %

NEW ESTIMATED
107.3 %

Now New

BOTTOM TOP

	10%	25%	MEDIAN	25%	10%
Industry Indicator	4.3 %	66.1 %	84.9 %	97.7 %	118.6 %
Debt Increase needed				0.1 %	21.6 %
SGR				14.2 %	16.0 %

Your Debt to Equity Ratio is slightly above the average for your industry and you should use debt to finance growth only after careful analysis of the added risk has been completed. Debt can be used to finance growth of a firm but this can also create risk for the firm if too much debt is taken on.

SUSTAINABLE GROWTH RATE IMPROVEMENT WORKSHEET II

Method 3 **Return to Owners Decrease**

Assumed 10 % ***and SGR of*** 15 %

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 10 %

- Assets Decrease

Assumed 10 %

results in Assets to Sales Decrease of 18.2 % ***and SGR of*** 18 %

Assets to Sales

COMPANY CURRENT 39.7 %

NEW ESTIMATED 32.5 %

Now New

BOTTOM TOP

	10%	25%	MEDIAN	25%	10%
Industry Indicator	38.2 %	25.3 %	23.1 %	21.7 %	20.3 %
ASR Decrease needed	3.8 %	36.5 %	41.8 %	45.5 %	48.9 %
SGR	14.9 %	24.4 %	27.2 %	29.6 %	32.2 %

Your performance in the Assets to Sales ratio is near the bottom for your industry and this may indicate that it is possible for you to implement a strategy to increase sales without major investment in new assets and/or reduce some assets without loss of sales. You should carefully consider actions that might be taken to increase your sales volume or reduce unproductive assets as this might improve your Sustainable Growth Rate.

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 27.7 %