

## Plainview Technology Case

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- Plainview manufactures iris scanning equipment for biometric identification
- In 2009, Plainview lost its largest customer, a defense contractor, which accounted for half of its business
  - Customer transferred business to a foreign competitor with lower labor costs
- Plainview management responded by increasing automation
  - Also built plants in California and South Carolina to be closer to customers
- Plainview expanded into new industries
  - Health care, financial institutions, nuclear power
- Plainview switched from high-volume, standard products to smaller-batch, customized products
- In 2010, Plainview adopted new 6G technology, which provides better results at lower manufacturing cost

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- The company has experienced explosive growth after surviving its crisis and has picked up greater following by analysts and investors
- A new analyst has just a few hours to prepare before participating on a conference call with Plainview Technology management
- Only information available is financial statements and ratios
- Based on the ratios, what seems to be the secret to the company's turnaround?
- What questions would you ask management during the call?

## Balance Sheet - Assets

(\$000's)	12/31/2009	12/31/2010	12/31/2011
Cash & Equivalents	295	288	1,045
Accounts Receivable	4,704	12,013	12,625
Inventories	7,481	20,660	28,532
Prepaid Expenses	275	203	280
Current Assets	12,755	33,164	42,482
Land	85	295	295
Building & Improvements	3,878	4,546	5,093
Construction in Progress	2	21	442
Machinery and Equipment	19,548	31,009	49,226
Accumulated Depreciation	(4,708)	(9,245)	(16,436)
Net Property, Plant, & Equip	18,805	26,626	38,620
Other Assets	380	94	103
Total Assets	31,940	59,884	81,205

## Balance Sheet – Liabilities & Stockholders' Equity

(\$000's)	12/31/2009	12/31/2010	12/31/2011
Curr. Portion of L.T. Debt	1,066	2,207	753
Accounts Payable	3,360	8,445	8,531
Accrued Wages	529	1,237	1,468
Accrued Taxes	21	836	182
Other Current Liabilities	355	820	797
Current Liabilities	5,331	13,545	11,731
Long Term Debt	6,742	23,451	29,210
Deferred Tax and Other	721	641	587
Total Long Term Liabilities	7,463	24,092	29,797
Common Stock	84	95	107
Paid In Capital	16,866	16,929	29,275
Retained Earnings	2,196	5,223	10,295
Stockholders' Equity	19,146	22,247	39,677
Total Liabs. & Stkhldrs.' Eq.	31,940	59,884	81,205



## Income Statement

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(\$000's)	Year ended:	12/31/2009	12/31/2010	12/31/2011
Sales		42,420	70,229	102,026
Cost of Sales		(36,726)	(59,330)	(85,404)
Gross Profit		5,694	10,899	16,622
SG&A Expense		(2,298)	(3,824)	(5,469)
Operating Income		3,396	7,075	11,153
Interest Expense		(1,086)	(1,953)	(2,665)
Other/Net		54	(77)	(40)
Pre-tax Income		2,364	5,045	8,448
Taxes		(894)	(2,018)	(3,378)
Net Income		1,470	3,027	5,070

## SCF: Operating

(\$000's)	Year ended:	12/31/2009	12/31/2010	12/31/2011
Cash Flows from Operating Activities:				
Net Income		1,470	3,027	5,070
Depreciation		2,372	4,537	7,191
Doubtful Accts.		12	48	48
Changes in:				
Accounts Receivable		4,594	(7,357)	(660)
Inventories		1,481	(13,179)	(7,872)
Deferred Taxes		8	178	587
Prepaid, other		(1)	179	14
Accounts Payable		(3,927)	5,084	86
Accrued Wages		99	708	232
Other Current Liabs.		110	464	(23)
Accrued Taxes		(502)	816	278
Cash Flow from Operations		5,716	(5,495)	4,951

## SCF: Investing and Financing

(\$000's)	Year ended:	12/31/2009	12/31/2010	12/31/2011
Cash Flows from Investing Activities:				
Capital Expenditures		(14,044)	(12,490)	(19,387)
Sales of Equipment		327	150	85
Cash Flows from Investments		(13,717)	(12,340)	(19,302)
Cash Flows from Financing Activities:				
Proceeds from Borrowings		8,088	21,113	29,658
Repayments of Borrowings		(11,792)	(3,349)	(25,986)
Common Stock issued		10,084	64	11,436
Cash Flows from Financing		6,380	17,828	15,108
Net Change In Cash		(1,621)	(7)	757
Cash Interest Paid		1,086	1,968	2,636
Cash Taxes Paid		1,404	1,024	2,422

# Common Size Financial Statements

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- **Hard to spot trends in the financial statements because of growth**
  - Growth in Assets and Sales drive trends in all of the line items
  - Are certain line items growing more or less than would be expected given the growth in assets or sales?
- **Balance sheet**
  - Express all numbers as a percent of Total Assets
- **Income statement**
  - Express all numbers as a percent of Sales
- **Cash flow statement**
  - Typically not common sized



## Common Size Balance Sheet - Assets

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(\$000's)	12/31/2009	12/31/2010	12/31/2011
Cash & Equivalents	0.01	0.00	0.01
Accounts Receivable	0.15	0.20	0.16
Inventories	0.23	0.35	0.35
Prepaid Expenses	0.01	0.00	0.00
Current Assets	0.40	0.55	0.52
Land	0.00	0.00	0.00
Building & Improvements	0.12	0.08	0.06
Construction in Progress	0.00	0.00	0.01
Machinery and Equipment	0.61	0.52	0.61
Accumulated Depreciation	(0.15)	(0.15)	(0.20)
Net Property, Plant, & Equip	0.59	0.44	0.48
Other Assets	0.01	0.00	0.00
Total Assets	1.00	1.00	1.00

## Common Size Balance Sheet – Liabilities & Stockholders' Equity

(\$000's)	12/31/2009	12/31/2010	12/31/2011
Curr. Portion of L.T. Debt	0.03	0.04	0.01
Accounts Payable	0.11	0.14	0.11
Accrued Wages	0.02	0.02	0.02
Accrued Taxes	0.00	0.01	0.00
Other Current Liabilities	0.01	0.01	0.01
Current Liabilities	0.17	0.23	0.14
Long Term Debt	0.21	0.39	0.36
Deferred Tax and Other	0.02	0.01	0.01
Total Long Term Liabilities	0.23	0.40	0.37
Common Stock	0.00	0.00	0.00
Paid In Capital	0.53	0.28	0.36
Retained Earnings	0.07	0.09	0.13
Stockholders' Equity	0.60	0.37	0.49
Total Liabs. & Stkhldrs.' Eq.	1.00	1.00	1.00

## Common Size Income Statement

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(\$000's)	12/31/2009	12/31/2010	12/31/2011
Sales	1.00	1.00	1.00
Cost of Sales	(0.87)	(0.84)	(0.84)
Gross Profit	0.13	0.16	0.16
SG&A Expense	(0.05)	(0.05)	(0.05)
Operating Income	0.08	0.10	0.11
Interest Expense	(0.03)	(0.03)	(0.03)
Other/Net	0.00	(0.00)	(0.00)
Pre-tax Income	0.06	0.07	0.08
Taxes	(0.02)	(0.03)	(0.03)
Net Income	0.03	0.04	0.05

## DuPont Analysis

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<u>DuPont Analysis</u>	12/31/2009	12/31/2010	12/31/2011
Return on Equity	11.34%	14.63%	16.37%
Return on Assets	7.26%	9.40%	9.68%
Financial Leverage	2.32	2.22	2.28
<u>Return on Assets</u>			
Return on Sales	5.16%	6.15%	6.69%
Asset turnover	1.41	1.53	1.45

Return on Equity = Net Income / Avg. Stockholders' Equity

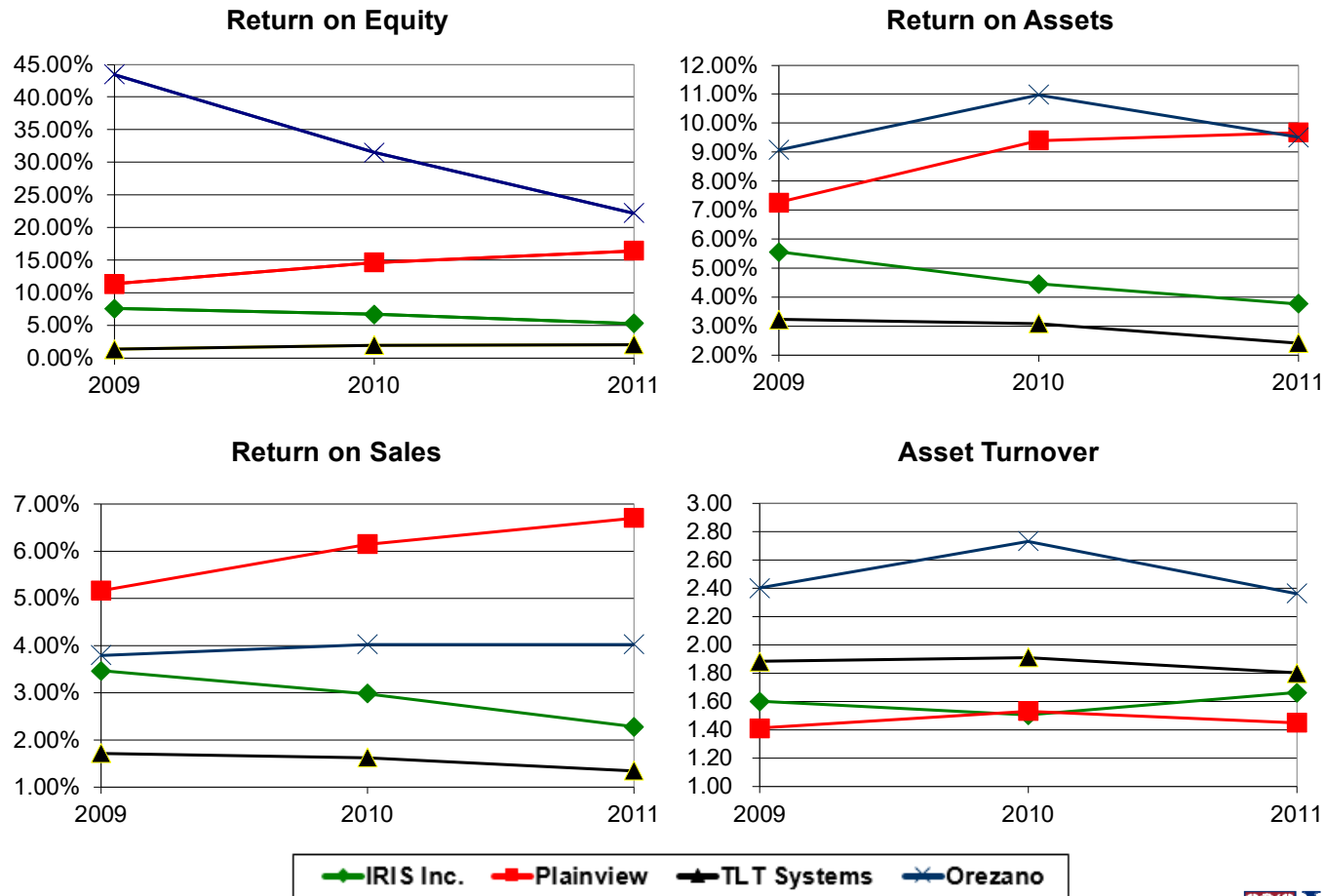
Return on Assets = (Net Income + After-tax Interest Exp.) / Avg. Total Assets

Financial Leverage = Avg. Total Assets / Avg. Stockholders' Equity

Return on Sales = (Net Income + After-tax Interest Exp.) / Sales

Asset turnover = Sales / Avg. Total Assets

## Cross-Sectional Comparisons - DuPont



## DuPont Analysis Conclusions

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- Big increases in ROE were unique for the industry
  - Improved ROA was the source of the increase in ROE
    - Financial Leverage was largely unchanged
  - The ultimate source of the ROE increase was improvement in Profit Margin (Return on Sales)
    - In contrast to competitors, ROS grew dramatically
    - Asset Turnover ratio was flat (similar to competitors)
- => The secret to Plainview's success was that their sales became more profitable between 2009 and 2011**