

Calculating A Company's Productivity



Disclaimer for those who are new to reading financial statements:

For those of you who are new to investing, keep in mind that the numbers you see on the screenshot are in thousands, meaning that “6,452,000 (6.4 million),” is actually 6,452,000,000 (6.4 billion). Numbers in thousands just means to take the number you see on screen e.g. “6,452,000” and multiply it by 1,000. Same thing goes for numbers in millions just that instead of multiplying by 1,000, you multiply by 1,000,000. The reason for this, generally, is to just show the more important digits and to make the numbers easier to read due to how big these numbers are because of how much money these companies are making. Financial statements will generally tell you whether the numbers are in thousands or in millions, like so:



Income Statement

All numbers in thousands

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Breakdown	TTM
Total Revenue	6,452,000
Cost of Revenue	2,036,000
Gross Profit	4,416,000
> Operating Expenses	2,669,000
Operating Income or Loss	1,747,000
Interest Expense	90,000
Total Other Income/Expenses Net	-61,000

$$\begin{array}{r} 6,452,000 \\ \times 1,000 \\ \hline 6,452,000,000 \end{array}$$

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in millions, except share data)

At March 31, 2020

	\$	5,906	\$
March 31, 2020 and December 31, 2019, respectively		590	
		293	
		330	
		7,119	
		90	
		236	
		1,234	
		664	
		498	
		9,763	
	\$	19,604	\$

$$\begin{array}{r} 5,906 \\ \times 1,000,000 \\ \hline 5,906,000,000 \end{array}$$

Productivity is a helpful metric that helps us measure if the combination of a company's efficiency and profitability is strong enough to produce a solid return on assets. This process is very simple and you'll just be using the same numbers you've already calculated. However, we will be using the tenths place of the numbers we've found without rounding them because the numbers we're dealing with aren't huge. If you've already rounded up your profitability and efficiency, then you just have to calculate it again and get that tenths place. That should be it! Another good thing to know is that we'll be using the original result for efficiency, so in my case, I'll be using that original 0.34442, not 1.9753 I got after doing the recalculations.

Calculating Productivity

$$\begin{array}{ccccccc} \curvearrowright & 0.23162 & \times & 0.34442 & = & 0.07977 & \times 100 = 7.9\% = 8\% \\ & \uparrow & & \uparrow & & & \\ 23.2\% & \text{Don't round} & & 34.4\% & & & \end{array}$$

The minimum benchmark for productivity will be 7.5%, and as you can see ATVI is just a bit higher than the benchmark. Overall it's not bad, they may not have the best efficiency you've ever seen but that's offset by their high profitability. If a company has a low core productivity, it means that the business operations aren't being managed as well as they could be. There definitely is a fix for that but that will vary a lot depending on the business, so you'll have to do additional research for that. Just because a company has a lower efficiency, doesn't mean it's a terrible business, but I personally do additional research to try figure out if there is a way for this to be fixed, where the risk factors are, what the valuation is, and proceed with a bit more caution and make sure that the results I'm getting with the rest of the research are more spot on. It's also good to look into the management team to see who's managing the business and making all of the decisions. Which is another criteria I look for in a business anyway.