Matching Company Descriptions with Financial Data: A Financial Statement Analysis Case

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Abstract

The case asks students to identify 9 companies based on financial ratios. The purpose of the case is to help students understand how company business characteristics and strategies impact a variety of financial ratios. The case is suitable for use in a financial statement analysis class. It can be assigned on an individual level, but is best either assigned in class for group activities, or in an online discussion board.

Case overview:

The purpose of the case is to illustrate how financial statement data and ratios reflect the underlying nature of company operations and strategies. Some industries, for example, require large investments in factories while others do not. Some companies sell inventory, while others deal in services. In this case, you need to match the companies described below with key financial ratios which have been computed for you, and summarized into tables.

Required:

Try to identify which company is which on the accompanying exhibit. All balance sheet and income figures are expressed as a percent of operating revenues. For each company, explain what factors led you to choose which company. (Example – Kelly Services would need fewer fixed assets, and less research expense, than a pharmaceutical company like Merck.)

3M Corp is a conglomerate, which manufactures a variety of products, including Scotch Tape, ScotchBrite sponges, audio-visual equipment, and other products. It was originally called Minnesota Mining and Manufacturing. It has, over time purchased some brands from other companies. It sells mainly to wholesalers and major retailers, not direct to customers.

Allstate Insurance is a major insurance company. It earns revenues through policy premiums, and through interest on investments. Its cost of sales includes, among other expenses, claims paid.

Best Buy is a retailer, specializing in electronic equipment. It sells both through physical stores and on line. It sells mainly to consumers.

Citigroup is a major American banking company, with some insurance operations as well. It earns interest revenues through lending and investing activities, and also earns fees and commissions for various other types of financial services. Over time, it has made various acquisitions of other companies as it expanded its financial services business beyond the original banking base in the New York area.

Con Edison is a power company, serving mainly the New York area. It earns revenues from fees charged for electricity. It classifies its supplies of fuel as “inventory”.

Kelly Services provides temporary staff to employers. They earn revenue by charging for temporary work services.

Merck is a pharmaceutical company, which develops and manufacturers a variety of patented drugs. It mainly sells to wholesalers, major health facilities, and major retailers.

Mondelēz International Inc. s a major multinational manufacturer of snacks and candies. Its brands include Ritz, Oreo, and Cadbury, among many others. It acquired many of these brands by either acquiring other companies, or buying brands from them. It sells to wholesalers and to retailers

Yum Brands is the parent company of Taco Bell, Pizza Hut, KFC, and the Habit Burger Grill. It was spun off from Pepsico in 1997. In turn, the Chinese operations of Yum were spun off in 2016, and the former Yum restaurants in /china now operate as franchises. At this time, Yum also bought back a large amount of common stock. Yum earns revenues both from operating its own stores and by getting franchise fees from franchised restaurant. It would record sales and cost of sales from company-owned stores, but not from franchisees.

Teaching note: Instructors wishing a copy of the solutions should email the author.

Case 1-- Identifying companies based on common-size ratios							Operating Revenues = 100%			
	1	2	3	4	5	6		7	8	9
Balance sheet										
Cash & Marketable securities	6.1%	11.4%	22.3%	8.2%	1.4%	4.0%		3.1%	1084.0%	5.4%
Receivables	12.4%	13.2%	15.9%	19.5%	17.8%	2.5%		30.1%	633.4%	9.5%
Inventories	10.7%	15.7%	10.0%	3.1%	0.0%	11.1%		0.0%	0.0%	0.0%
Property, plant equipment at cost	51.5%	76.0%	66.5%	381.8%	6.7%	15.1%		3.4%	39.0%	35.9%
accumulated depreciation	-22.9%	-49.1%	-30.3%	-83.4%	-4.8%	-10.0%		-2.8%	-13.0%	-18.8%
Operating lease right of use	2.1%	2.4%	2.3%	3.6%	0.0%	5.9%		1.3%	0.9%	10.8%
Intangibles	137.0%	51.1%	70.0%	2.6%	6.8%	3.0%		3.0%	23.9%	14.5%
Investments	15.5%	0.0%	1.0%	0.0%	120.3%	0.0%		0.0%	521.0%	0.0%
Other assets	13.4%	15.1%	26.6%	105.3%	42.3%	2.5%		15.5%	101.7%	28.1%
Total assets	225.9%	135.7%	184.1%	440.7%	190.5%	34.1%		53.7%	2390.9%	85.4%
Current liabilities	53.1%	27.8%	40.9%	72.3%	123.1%	19.4%		22.7%	1835.6%	24.3%
Long-term debt	64.3%	40.9%	48.5%	128.6%	15.5%	2.5%		0.0%	268.7%	167.4%
Other long-term liabilities	23.0%	23.8%	17.1%	106.5%	18.2%	6.2%		5.7%	86.9%	23.4%
Shareholders' Equity	85.5%	43.2%	77.7%	133.3%	33.7%	6.0%		25.3%	199.7%	129.7%
Income statement										
Operating revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		100.0%	100.0%	100.0%
Cost of sales or operating expenses	-59.5%	-50.8%	-22.7%	-70.1%	-100.3%	-76.6%		-79.0%	-50.5%	-23.4%
Depreciation and amortization	-3.5%	-5.3%	-6.6%	-13.1%	-1.6%	-2.0%		-0.7%	-4.2%	-2.1%
selling and administrative	-23.4%	-26.4%	-16.9%	0.0%	nm	-17.2%		-19.0%	-1.1%	-16.7%
Research and development	-1.1%	-5.4%	-22.9%	-0.3%	0.0%	0.0%		0.0%	0.0%	0.0%
Interest (expenses) income	-1.3%	-1.3%	-1.6%	-5.4%	-0.7%	0.0%		0.0%	-25.5%	-32.0%
Income tax (expense)	-2.7%	-1.8%	-3.2%	-3.2%	1.0%	-0.8%		0.2%	-3.6%	-4.9%
all other items, net	0.3%	8.0%	-1.5%	2.4%	-1.0%	-0.3%		-2.8%	-0.4%	-1.6%
Net income	8.7%	16.9%	24.5%	10.2%	-2.7%	3.1%		-1.3%	14.7%	19.4%
Operating cash flow/capital expenditures	4.31	3.20	4.35	0.93	12.19	1.96	Neg. Op Cash flow		4.45	5.11