

Individual Case Analysis 1

PROFESSOR INSTRUCTIONS:

Complete Experiential Exercise 4C, Step 1, on text pages 124. Once you have found Table 4-6, complete the first 18 ratios and then 2 of your choice from the remaining ratios (this will equal the 20 required in the Assurance of Learning Exercise). **Make sure that you show your work!**

EXERCISE 4C-STEP 1 INSTRUCTIONS:**Perform a Financial Ratio Analysis for PepsiCo**Purpose

Financial Ratio analysis is one of the best techniques for identifying and evaluating internal strengths and weaknesses. Potential investors and current shareholders look closely at firm's financial ratios, making detailed comparisons to industry averages and to previous periods of time. Financial ratio analysis provide vital input information for developing an IFE Matrix.

Instructions

Step 1: On a separate sheet of paper, number from 1 to 20. Referring to PepsiCo's income statement and balance sheet (pp.22-30), calculate **20** financial ratios for 2012 for the company. Use Table 4-6 as a reference.

COPY OF INCOME STATEMENT AND BALANCE SHEET FROM pp.22-30:

EXHIBIT 7 PepsiCo's Recent Income Statements (in millions of \$)

	2012	2011	2010	2009
Revenue	65,492.0	66,504.0	57,838.0	43,251.0
Other Revenue, Total	0.0	0.0	0.0	0.0
Total Revenue	65,492.0	66,504.0	57,838.0	43,251.0
Cost of Revenue, Total	31,291.0	31,593.0	26,575.0	20,351.0
Gross Profit	34,201.0	34,911.0	31,263.0	22,900.0
Selling/General/Administrative Expenses, Total	24,675.0	24,433.0	21,770.0	15,489.0
Research & Development	0.0	0.0	0.0	388.0
Depreciation/Amortization	119.0	133.0	117.0	64.0
Interest Expense (Income), Net Operating	0.0	0.0	0.0	0.0
Unusual Expense (Income)	295.0	712.0	1,044.0	0.0
Other Operating Expenses, Total	0.0	0.0	0.0	0.0
Operating Income	9,112.0	9,633.0	8,332.0	6,959.0
Interest Income (Expense), Net Non-Operating	0.0	0.0	0.0	0.0
Gain (Loss) on Sale of Assets	0.0	0.0	0.0	0.0
Other, Net	0.0	0.0	0.0	0.0
Income Before Tax	8,304.0	8,834.0	8,232.0	7,045.0
Income Tax, Total	2,090.0	2,372.0	1,894.0	1,879.0
Income After Tax	6,214.0	6,462.0	6,338.0	5,166.0
Minority Interest	-(36.0)	-(19.0)	-(18.0)	-24.0
Equity In Affiliates	0.0	0.0	0.0	0.0
U.S. GAAP Adjustment	0.0	0.0	0.0	0.0
Net Income Before Extra Items	6,178.0	6,443.0	6,320.0	5,142.0
Total Extraordinary Items	0.0	0.0	0.0	0.0
Net Income	6,178.0	6,443.0	6,320.0	5,142.0

Source: Based on company documents.

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EXHIBIT 8 PepsiCo's Recent Balance Sheets (in millions of \$)

	2012	2011	2010	2009
Assets				
Cash and Short-Term Investments	6,619.0	4,425.0	6,369.0	2,277.0
Total Receivables, Net	7,041.0	6,912.0	6,323.0	4,683.0
Total Inventory	3,581.0	3,827.0	3,372.0	2,522.0
Prepaid Expenses	1,479.0	2,277.0	1,505.0	1,324.0
Other Current Assets, Total	0.0	0.0	0.0	0.0
Total Current Assets	18,720.0	17,441.0	17,569.0	10,806.0
Property/Plant/Equipment, Total, Net	19,136.0	19,698.0	19,058.0	11,663.0
Goodwill, Net	16,971.0	16,800.0	14,661.0	5,124.0
Intangibles, Net	16,525.0	16,445.0	13,808.0	1,860.0
Long-Term Investments	2,351.0	1,566.0	2,021.0	3,883.0
Note Receivable, Long-Term	136.0	159.0	165.0	115.0
Other Long-Term Assets, Total	799.0	773.0	871.0	2,543.0
				0.0
Total Assets	74,638.0	72,882.0	68,153.0	35,994.0
Liabilities and SEquity				
Accounts Payable	4,451.0	4,083.0	3,865.0	2,846.0
Payable/Accrued	0.0	0.0	0.0	0.0
Accrued Expenses	3,892.0	3,876.0	3,620.0	2,843.0
Notes Payable/Short-Term Debt	4,815.0	6,205.0	4,898.0	369.0
Current Port. of LT Debt/Capital Leases	0.0	0.0	0.0	0.0
Other Current Liabilities, Total	3,931.0	3,990.0	3,509.0	2,729.0
Total Current Liabilities	17,089.0	18,154.0	15,892.0	8,787.0
Total Long-Term Debt	23,544.0	20,568.0	19,999.0	7,858.0
Deferred Income Tax	5,063.0	4,995.0	4,057.0	226.0
Minority Interest	105.0	311.0	312.0	476.0
Other Liabilities, Total	6,543.0	8,266.0	6,729.0	6,541.0
Total Liabilities	52,344.0	52,294.0	46,989.0	23,888.0
Redeemable Preferred Stock	0.0	0.0	0.0	0.0
Preferred Stock, Non Redeemable, Net	-(123.0)	-(116.0)	-(109.0)	-97.0
Common Stock	26.0	26.0	31.0	30.0
Additional Paid-In Capital	4,178.0	4,461.0	4,527.0	351.0
Retained Earnings	43,158.0	40,316.0	37,090.0	30,638.0
Treasury Stock, Common	-(19,458.0)	-(17,870.0)	-(16,745.0)	-14,122.0
ESOP Debt Guarantee	0.0	0.0	0.0	0.0
Unrealized Gain (Loss)	0.0	0.0	0.0	0.0
Other SEquity, Total	-(5,487.0)	-(6,229.0)	-(3,630.0)	-4,694.0
Total SEquity	22,294.0	20,588.0	21,164.0	12,106.0
Total Liabilities & SEquity	74,638.0	72,882.0	68,153.0	35,994.0
Total Common Shares Outstanding	1,544.0	1,565.0	1,581.0	1,553.0
Total Preferred Shares Outstanding	0.8	0.8	0.8	0.8

Source: Based on company documents.

REFERENCE TABLE 4-6:

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TABLE 4-6 A Summary of Key Financial Ratios

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations
Quick Ratio	$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying on the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs
Activity Ratios		
Inventory Turnover	$\frac{\text{Sales}}{\text{Inventory of finished goods}}$	Whether a firm holds excessive stocks of inventories and whether a firm is slowly selling its inventories compared to the industry average
Fixed Assets Turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Sales productivity and plant and equipment utilization
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	$\frac{\text{Accounts receivable}}{\text{Total credit sales/365 days}}$	The average length of time it takes a firm to collect on credit sales (in days)
Profitability Ratios		
Gross Profit Margin	$\frac{\text{Sales minus cost of goods sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	$\frac{\text{Earnings before interest and taxes EBIT}}{\text{Sales}}$	Profitability without concern for taxes and interest
Net Profit Margin	$\frac{\text{Net income}}{\text{Sales}}$	After-tax profits per dollar of sales
Return on Total Assets (ROA)	$\frac{\text{Net income}}{\text{Total assets}}$	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Stockholders' Equity (ROE)		After-tax profits per dollar of stockholders' investment in the firm
Earnings Per Share (EPS)	$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$	Earnings available to the owners of common stock
Price-Earnings Ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Attractiveness of firm on equity markets
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Net Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

ANSWER HERE:

Exercise 4C-Step 1: Calculate PepsiCo's 20 financial ratios for 2012. –show your work!

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