

Common Size Balance Sheets: Divide all items by Total Assets

<u>Assets</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>	<u>Ind.</u>
Cash	0.6%	0.3%	0.4%	0.3%
ST Inv.	3.3%	0.7%	2.0%	0.3%
AR	23.9%	21.9%	25.0%	22.4%
Invent.	<u>48.7%</u>	<u>44.6%</u>	<u>48.8%</u>	<u>41.2%</u>
Total CA	76.5%	67.4%	76.2%	64.1%
Net FA	23.5%	32.6%	23.8%	35.9%
TA	100.0%	100.0%	100.0%	100.0%



Divide all items by Total Liabilities & Equity

<u>Assets</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>	<u>Ind.</u>
AP	9.9%	11.2%	10.2%	11.9%
Notes pay.	13.6%	24.9%	8.5%	2.4%
Accruals	<u>9.3%</u>	<u>9.9%</u>	<u>10.8%</u>	<u>9.5%</u>
Total CL	32.8%	46.0%	29.6%	23.7%
LT Debt	22.0%	34.6%	14.2%	26.3%
Total eq.	45.2%	19.3%	56.2%	50.0%
Total L&E	100.0%	100.0%	100.0%	100.0%

Analysis of Common Size Balance Sheets



- Computron has higher proportion of inventory and current assets than Industry.
- Computron now has more equity (which means LESS debt) than Industry.
- Computron has more short-term debt than industry, but less long-term debt than industry.



Common Size Income Statement: Divide all items by Sales

	<u>2009</u>	<u>2010</u>	<u>2011E</u>	<u>Ind.</u>
Sales	100.0%	100.0%	100.0%	100.0%
COGS	83.4%	85.4%	82.4%	84.5%
Other exp.	9.9%	12.3%	8.7%	4.4%
Depr.	<u>0.6%</u>	<u>2.0%</u>	<u>1.7%</u>	<u>4.0%</u>
EBIT	6.1%	0.3%	7.1%	7.1%
Int. Exp.	<u>1.8%</u>	<u>3.0%</u>	<u>1.1%</u>	<u>1.1%</u>
EBT	4.3%	-2.7%	6.0%	5.9%
Taxes	<u>1.7%</u>	<u>-1.1%</u>	<u>2.4%</u>	<u>2.4%</u>
NI	2.6%	-1.6%	3.6%	3.6% ₄



Analysis of Common Size Income Statements

- Computron has lower COGS (86.7) than industry (84.5), but higher other expenses. Result is that Computron has similar EBIT (7.1) as industry.



Percentage Change Analysis: % Change from First Year (2009)

<u><i>Income St.</i></u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>
Sales	0.0%	70.0%	105.0%
COGS	0.0%	73.9%	102.5%
Other exp.	0.0%	111.8%	80.3%
Depr.	<u>0.0%</u>	<u>518.8%</u>	<u>534.9%</u>
EBIT	0.0%	-91.7%	140.4%
Int. Exp.	<u>0.0%</u>	<u>181.6%</u>	<u>28.0%</u>
EBT	0.0%	-208.2%	188.3%
Taxes	<u>0.0%</u>	<u>-208.2%</u>	<u>188.3%</u>
NI	0.0%	-208.2%	188.3% ₆



Analysis of Percent Change Income Statement

- We see that 2011 sales grew 105% from 2009, and that NI grew 188% from 2009.
- So Computron has become more profitable.



Percentage Change Balance Sheets: Assets

<u>Assets</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>
Cash	0.0%	-19.1%	55.6%
ST Invest.	0.0%	-58.8%	47.4%
AR	0.0%	80.0%	150.0%
Invent.	<u>0.0%</u>	<u>80.0%</u>	<u>140.0%</u>
Total CA	0.0%	73.2%	138.4%
Net FA	<u>0.0%</u>	<u>172.6%</u>	<u>142.7%</u>
TA	0.0%	96.5%	139.4%



Percentage Change Balance Sheets: Liabilities & Equity

<u>Liab. & Eq.</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>
AP	0.0%	122.5%	147.1%
Notes pay.	0.0%	260.0%	50.0%
Accruals	<u>0.0%</u>	<u>109.5%</u>	<u>179.4%</u>
Total CL	0.0%	175.9%	115.9%
LT Debt	0.0%	209.2%	54.6%
Total eq.	<u>0.0%</u>	<u>-16.0%</u>	<u>197.9%</u>
Total L&E	0.0%	96.5%	139.4%



Analysis of Percent Change Balance Sheets

- We see that total assets grew at a rate of 139%, while sales grew at a rate of only 105%. So asset utilization remains a problem.



CHAPTER 3

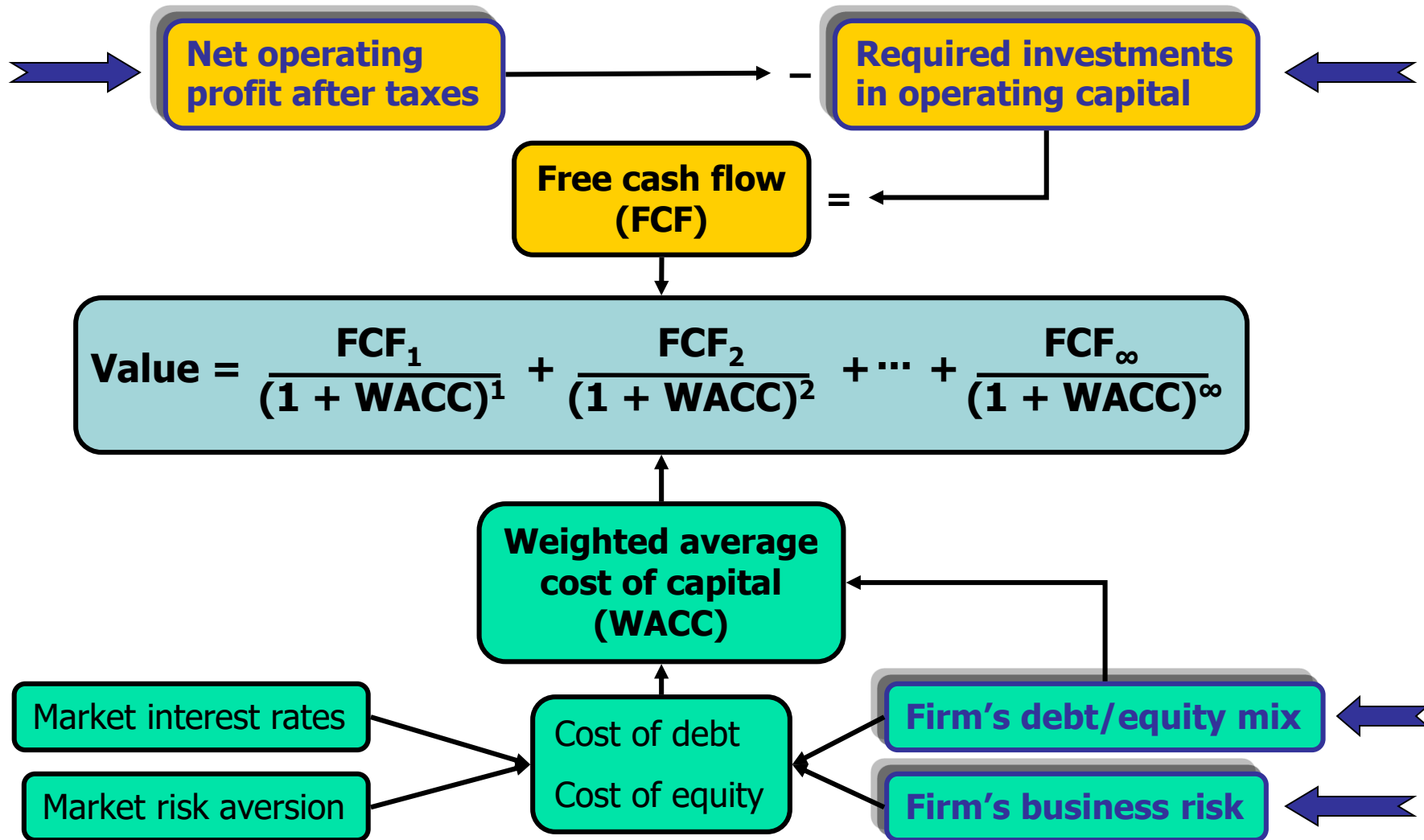
Analysis of Financial Statements



Topics in Chapter

- Ratio analysis
- Du Pont system
- Effects of improving ratios
- Limitations of ratio analysis
- Qualitative factors

Determinants of Intrinsic Value: Using Ratio Analysis





Overview

- Ratios facilitate comparison of:
 - One company over time
 - One company versus other companies
- Ratios are used by:
 - Lenders to determine creditworthiness
 - Stockholders to estimate future cash flows and risk
 - Managers to identify areas of weakness and strength



Income Statement

	<u>2010</u>	<u>2011E</u>
Sales	\$5,834,400	\$7,035,600
COGS	4,980,000	5,800,000
Other expenses	720,000	612,960
Deprec.	<u>116,960</u>	<u>120,000</u>
Tot. op. costs	<u>5,816,960</u>	<u>6,532,960</u>
EBIT	17,440	502,640
Int. expense	<u>176,000</u>	<u>80,000</u>
EBT	(158,560)	422,640
Taxes (40%)	<u>(63,424)</u>	<u>169,056</u>
Net income	<u>(\$ 95,136)</u>	\$ 253,584



Balance Sheets: Assets

	<u>2010</u>	<u>2011E</u>
Cash	\$ 7,282	\$ 14,000
S-T invest.	20,000	71,632
AR	632,160	878,000
Inventories	<u>1,287,360</u>	<u>1,716,480</u>
Total CA	1,946,802	2,680,112
Net FA	<u>939,790</u>	<u>836,840</u>
Total assets	<u>\$2,886,592</u>	<u>\$3,516,952</u>

Balance Sheets: Liabilities & Equity

	<u>2010</u>	<u>2011E</u>
Accts. payable	\$ 324,000	\$ 359,800
Notes payable	720,000	300,000
Accruals	<u>284,960</u>	<u>380,000</u>
Total CL	1,328,960	1,039,800
Long-term debt	1,000,000	500,000
Common stock	460,000	1,680,936
Ret. earnings	<u>97,632</u>	<u>296,216</u>
Total equity	<u>557,632</u>	<u>1,977,152</u>
Total L&E	<u>\$2,886,592</u>	<u>\$3,516,952</u>



Other Data

	<u>2010</u>	<u>2011E</u>
Stock price	\$6.00	\$12.17
# of shares	100,000	250,000
EPS	-\$0.95	\$1.01
DPS	\$0.11	\$0.22
Book val. per sh.	\$5.58	\$7.91
Lease payments	\$40,000	\$40,000
Tax rate	0.4	0.4



Liquidity Ratios

- Can the company meet its short-term obligations using the resources it currently has on hand?

Forecasted Current and Quick Ratios for 2011.

$$CR_{10} = \frac{CA}{CL} = \frac{\$2,680}{\$1,040} = 2.58.$$

$$QR_{10} = \frac{CA - \text{Inv.}}{CL} \\ = \frac{\$2,680 - \$1,716}{\$1,040} = 0.93.$$



Comments on CR and QR

	2011E	2010	2009	Ind.
CR	2.58	1.46	2.3	2.7
QR	0.93	0.5	0.8	1.0

- Expected to improve but still below the industry average.
- Liquidity position is weak.



Practice Question

- 1 Ace Industries has current assets equal to \$3 million. The company's current ratio is 1.5, and its quick ratio is 1.0. What is the firm's level of current liabilities? What is the firm's level of inventories?
- 2 The Nelson Company has \$1,312,500 in current assets and \$525,000 in current liabilities. Its initial inventory level is \$375,000, and it will raise funds as additional notes payable and use them to increase inventory. How much can Nelson's short-term debt (notes payable) increase without pushing its current ratio below 2.0? What will be the firm's quick ratio after Nelson has raised the maximum amount of short-term funds?



Asset Management Ratios

- How efficiently does the firm use its assets?
- How much does the firm have tied up in assets for each dollar of sales?

Inventory Turnover Ratio 2011 vs. Industry Average

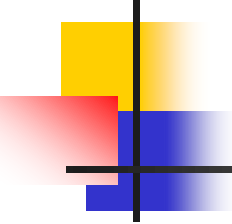
$$\begin{aligned} \text{Inv. turnover} &= \frac{\text{Sales}}{\text{Inventories}} \\ &= \frac{\$7,036}{\$1,716} = 4.10. \end{aligned}$$

	2011E	2010	2009	Ind.
Inv. T.	4.1	4.5	4.8	6.1

Comments on Inventory Turnover



- Inventory turnover is below industry average.
- Firm might have old inventory, or its control might be poor.
- No improvement is currently forecasted.



DSO: average number of days
from sale until cash received.

$$\text{DSO} = \frac{\text{Receivables}}{\text{Average sales per day}}$$

$$= \frac{\text{Receivables}}{\text{Sales}/365} \quad = \frac{\$878}{\$7,036/365}$$

$$= 45.5 \text{ days.}$$



Appraisal of DSO

- Firm collects too slowly, and situation is getting worse.
- Poor credit policy.

	2011	2010	2009	Ind.
DSO	45.5	39.5	37.4	32.0

Fixed Assets and Total Assets Turnover Ratios

$$\begin{aligned}\text{Fixed assets turnover} &= \frac{\text{Sales}}{\text{Net fixed assets}} \\ &= \frac{\$7,036}{\$837} = 8.41.\end{aligned}$$

$$\begin{aligned}\text{Total assets turnover} &= \frac{\text{Sales}}{\text{Total assets}} \\ &= \frac{\$7,036}{\$3,517} = 2.00.\end{aligned}$$

(More...) 29



Fixed Assets and Total Assets Turnover Ratios

- FA turnover is expected to exceed industry average. Good.
- TA turnover not up to industry average. Caused by excessive current assets (A/R and inventory).

	2011E	2010	2009	Ind.
FA TO	8.4	6.2	10.0	7.0
TA TO	2.0	2.0	2.3	2.5



Practice Question

69. Aziz Industries has sales of \$100,000 and accounts receivable of \$11,500, and it gives its customers 30 days to pay. The industry average DSO is 27 days, based on a 365-day year. If the company changes its credit and collection policy sufficiently to cause its DSO to fall to the industry average, and if it earns 8.0% on any cash freed-up by this change, how would that affect its net income, assuming other things are held constant?
70. Heaton Corp. sells on terms that allow customers 45 days to pay for merchandise. Its sales last year were \$425,000, and its year-end receivables were \$60,000. If its DSO is less than the 45-day credit period, then customers are paying on time. Otherwise, they are paying late. By how much are customers paying early or late? Base your answer on this equation: $DSO - \text{Credit period} = \text{days early or late}$, and use a 365-day year when calculating the DSO. A positive answer indicates late payments, while a negative answer indicates early payments.
71. Harper Corp.'s sales last year were \$395,000, and its year-end receivables were \$42,500. Harper sells on terms that call for customers to pay 30 days after the purchase, but many delay payment beyond Day 30. On average, how many days late do customers pay? Base your answer on this equation: $DSO - \text{Allowed credit period} = \text{Average days late}$, and use a 365-day year when calculating the DSO.
72. Bonner Corp.'s sales last year were \$415,000, and its year-end total assets were \$355,000. The average firm in the industry has a total assets turnover ratio (TATO) of 2.4. Bonner's new CFO believes the firm has excess assets that can be sold so as to bring the TATO down to the industry average without affecting sales. By how much must the assets be reduced to bring the TATO to the industry average, holding sales constant?



Debt Management Ratios

- Does the company have too much debt?
- Can the company's earnings meet its debt servicing requirements?



Calculate the debt, TIE, and EBITDA coverage ratios 2011.

$$\begin{aligned}\text{Debt ratio} &= \frac{\text{Total liabilities}}{\text{Total assets}} \\ &= \frac{\$1,040 + \$500}{\$3,517} = 43.8\%.\end{aligned}$$

$$\begin{aligned}\text{TIE} &= \frac{\text{EBIT}}{\text{Int. expense}} \\ &= \frac{\$502.6}{\$80} = 6.3.\end{aligned}$$

(More...)



EBITDA Coverage (EC) 2011

EBIT + Depr. & Amort. + Lease payments

Interest expense + Lease pmt. + Loan pmt.

$$= \frac{\$502.6 + \$120 + \$40}{\$80 + \$40 + \$0} = 5.5.$$

Debt Management Ratios vs. Industry Averages

	2011E	2010	2009	Ind.
D/A	43.8%	80.7%	54.8%	50.0%
TIE	6.3	0.1	3.3	6.2
EC	5.5	0.8	2.6	8.0



Profitability Ratios

- What is the company's rate of return on:
 - Sales?
 - Assets?



Profit Margins

Net profit margin (PM):

$$PM = \frac{NI}{Sales} = \frac{\$253.6}{\$7,036} = 3.6\%.$$

Operating profit margin (OM):

$$OM = \frac{EBIT}{Sales} = \frac{\$503}{\$7,036} = 7.1\%.$$



Profit Margins (Continued)

Gross profit margin (GPM):

$$\text{GPM} = \frac{\text{Sales} - \text{COGS}}{\text{Sales}} = \frac{\$7,036 - \$5,800}{\$7,036}$$

$$\text{GPM} = \frac{\$1,236}{\$7,036} = 17.6\%.$$

Profit Margins vs. Industry Averages

	2011E	2010	2009	Ind.
PM	3.6%	-1.6%	2.6%	3.6%
OPM	7.1	0.3	6.1	7.1
GPM	17.6	14.6	16.6	15.5

Very bad in 2010, but projected to meet or exceed industry average in 2011.



Basic Earning Power (BEP)

$$\begin{aligned} \text{BEP} &= \frac{\text{EBIT}}{\text{Total assets}} \\ &= \frac{\$502.6}{\$3,517} = 14.3\%. \end{aligned}$$

(More...)

Basic Earning Power vs. Industry Average

- BEP removes effect of taxes and financial leverage. Useful for comparison.
- Projected to be below average.
- Room for improvement.

	2011E	2010	2009	Ind.
BEP	14.3%	0.6%	14.2%	17.8%



Return on Assets (ROA) and Return on Equity (ROE)

$$\begin{aligned} \text{ROA} &= \frac{\text{NI}}{\text{Total assets}} \\ &= \frac{\$253.6}{\$3,517} = 7.2\%. \end{aligned}$$

(More...)



Return on Assets (ROA) and Return on Equity (ROE)

$$\begin{aligned} \text{ROE} &= \frac{\text{NI}}{\text{Common Equity}} \\ &= \frac{\$253.6}{\$1,977} = 12.8\%. \end{aligned}$$

(More...)



ROA and ROE vs. Industry Averages

	2011E	2010	2009	Ind.
ROA	7.2%	-3.3%	6.0%	9.0%
ROE	12.8%	-17.1%	13.3%	18.0%

Both below average but improving.

Effects of Debt on ROA and ROE



- ROA is lowered by debt--interest expense lowers net income, which also lowers ROA.
- However, the use of debt lowers equity, and if equity is lowered more than net income, ROE would increase.



Challenge Question

Muscarella Inc. has the following balance sheet and income statement data:

Cash	\$ 14,000	Accounts payable	\$ 42,000
Receivables	70,000	Other current liabilities	<u>28,000</u>
Inventories	<u>210,000</u>	Total CL	\$ 70,000
Total CA	\$294,000	Long-term debt	70,000
Net fixed assets	<u>126,000</u>	Common equity	<u>280,000</u>
Total assets	<u>\$420,000</u>	Total <u>liab.</u> and equity	<u>\$420,000</u>
Sales	\$280,000		
Net income	\$ 21,000		

The new CFO thinks that inventories are excessive and could be lowered sufficiently to cause the current ratio to equal the industry average, 2.70, without affecting either sales or net income. Assuming that inventories are sold off and not replaced to get the current ratio to the target level, and that the funds generated are used to buy back common stock at book value, by how much would the ROE change?



Market Value Ratios

- Market value ratios incorporate the:
 - High current levels of earnings and cash flow increase market value ratios
 - High expected growth in earnings and cash flow increases market value ratios
 - High risk of expected growth in earnings and cash flow decreases market value ratios



Calculate and appraise the P/E, P/CF, and M/B ratios.

Price = \$12.17.

$$\text{EPS} = \frac{\text{NI}}{\text{Shares out.}} = \frac{\$253.6}{250} = \$1.01.$$

$$\text{P/E} = \frac{\text{Price per share}}{\text{EPS}} = \frac{\$12.17}{\$1.01} = 12.$$



Industry P/E Ratios:

<u>Industry</u>	<u>Ticker*</u>	<u>P/E</u>
Banking	STI	1.32
Software	MSFT	6.14
Drug	PFE	5.87
Electric Utilities	DUK	10.14
Semiconductors	INTC	4.01
Steel	NUE	0.33
Tobacco	MO	1.30
S&P 500		14.22

***Ticker is for typical firm in industry, but P/E ratio is for the industry, not the individual firm; www.investor.reuters.com, January 2009.**



Market Based Ratios

$$\begin{aligned}\text{CF per share} &= \frac{\text{NI} + \text{Depr.}}{\text{Shares out.}} \\ &= \frac{\$253.6 + \$120.0}{250} = \$1.49.\end{aligned}$$

$$\begin{aligned}\text{P/CF} &= \frac{\text{Price per share}}{\text{Cash flow per share}} \\ &= \frac{\$12.17}{\$1.49} = 8.2.\end{aligned}$$

Market Based Ratios (Continued)

$$\begin{aligned} \text{BVPS} &= \frac{\text{Com. equity}}{\text{Shares out.}} \\ &= \frac{\$1,977}{250} = \$7.91. \end{aligned}$$

$$\begin{aligned} \text{M/B} &= \frac{\text{Mkt. price per share}}{\text{Book value per share}} \\ &= \frac{\$12.17}{\$7.91} = 1.54. \end{aligned}$$

Interpreting Market Based Ratios



- P/E: How much investors will pay for \$1 of earnings. Higher is better.
- M/B: How much paid for \$1 of book value. Higher is better.
- P/E and M/B are high if ROE is high, risk is low.

Comparison with Industry Averages



	2011E	2010	2009	Ind.
P/E	12.0	-6.3	9.7	14.2
P/CF	8.2	27.5	8.0	7.6
M/B	1.5	1.1	1.3	2.9



Explain the Du Pont System

- The Du Pont system focuses on:
 - Expense control (PM)
 - Asset utilization (TATO)
 - Debt utilization (EM)
- It shows how these factors combine to determine the ROE.



The Du Pont System

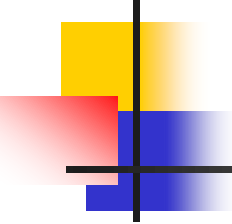
$$\left(\text{Profit margin} \right) \left(\text{TA turnover} \right) \left(\text{Equity multiplier} \right) = \text{ROE}$$

$$\frac{\text{NI}}{\text{Sales}} \times \frac{\text{Sales}}{\text{TA}} \times \frac{\text{TA}}{\text{CE}} = \text{ROE}$$



The Du Pont System

$\frac{\text{NI}}{\text{Sales}}$	x	$\frac{\text{Sales}}{\text{TA}}$	x	$\frac{\text{TA}}{\text{CE}}$	=	ROE	
2008:	2.6%	x	2.3	x	2.2	=	13.2%
2009:	-1.6%	x	2.0	x	5.2	=	-16.6%
2010:	3.6%	x	2.0	x	1.8	=	13.0%
Ind.:	3.6%	x	2.5	x	2.0	=	18.0%



Potential Problems and Limitations of Ratio Analysis

- Comparison with industry averages is difficult if the firm operates many different divisions.
- Seasonal factors can distort ratios.
- Window dressing techniques can make statements and ratios look better.
- Different accounting and operating practices can distort comparisons.



Qualitative Factors

- There is greater risk if:
 - revenues tied to a single customer
 - revenues tied to a single product
 - reliance on a single supplier?
 - High percentage of business is generated overseas?
- What is the competitive situation?
- What products are in the pipeline?
- What are the legal and regulatory issues?



Practice Question

Balance Sheet (Millions of \$)

Assets

	2010
Cash and securities	\$1,554.0
Accounts receivable	9,660.0
Inventories	13,440.0
Total current assets	<u>\$24,654.0</u>
Net plant and equipment	17,346.0
Total assets	<u><u>\$42,000.0</u></u>

Liabilities and Equity

Accounts payable	\$7,980.0
Notes payable	5,880.0
Accruals	4,620.0
Total current liabilities	<u>\$18,480.0</u>
Long-term bonds	10,920.0
Total debt	<u>\$29,400.0</u>
Common stock	3,360.0
Retained earnings	9,240.0
Total common equity	<u>\$12,600.0</u>
Total liabilities and equity	<u><u>\$42,000.0</u></u>

Income Statement (Millions of \$)

	2010
Net sales	\$58,800.00
Operating costs except <u>depr'n</u>	\$54,978.0
Depreciation	<u>\$1,029.0</u>
Earnings <u>bef int</u> and taxes (EBIT)	\$2,793.0
Less interest	<u>1,050.0</u>
Earnings before taxes (EBT)	\$1,743.0
Taxes	\$610.1
Net income	<u><u>\$1,133.0</u></u>

Other data:

Shares outstanding (millions)	175.00
Common dividends	\$509.83
<u>Int rate</u> on notes payable & L-T bonds	6.25%
Federal plus state income tax rate	35%
Year-end stock price	\$77.69



Practice Question

Answer the following question

What is the firm's current ratio?

What is the firm's quick ratio?

What is the firm's total assets turnover?

What is the firm's inventory turnover ratio?

What is the firm's TIE?

What is the firm's EBITDA coverage?

What is the firm's debt ratio?

What is the firm's ROA?

What is the firm's ROE?

What is the firm's BEP?

What is the firm's profit margin?

What is the firm's dividends per share?

What is the firm's cash flow per share?

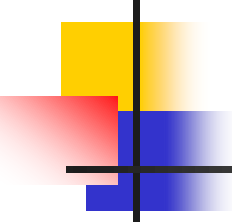
What is the firm's EPS?

What is the firm's P/E ratio?

What is the firm's book value per share?

What is the firm's market-to-book ratio?

What is the firm's equity multiplier?



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Divide all items by Total Liabilities & Equity

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Total CL	32.8%	46.0%	29.6%	23.7%
LT Debt	22.0%	34.6%	14.2%	26.3%
Total eq.	45.2%	19.3%	56.2%	50.0%
Total L&E	100.0%	100.0%	100.0%	100.0%



Analysis of Common Size Balance Sheets

- Computron has higher proportion of inventory and current assets than Industry.
- Computron now has more equity (which means LESS debt) than Industry.
- Computron has more short-term debt than industry, but less long-term debt than industry.



Common Size Income Statement: Divide all items by Sales

	<u>2009</u>	<u>2010</u>	<u>2011E</u>	<u>Ind.</u>
Sales	100.0%	100.0%	100.0%	100.0%
COGS	83.4%	85.4%	82.4%	84.5%
Other exp.	9.9%	12.3%	8.7%	4.4%
Depr.	<u>0.6%</u>	<u>2.0%</u>	<u>1.7%</u>	<u>4.0%</u>
EBIT	6.1%	0.3%	7.1%	7.1%
Int. Exp.	<u>1.8%</u>	<u>3.0%</u>	<u>1.1%</u>	<u>1.1%</u>
EBT	4.3%	-2.7%	6.0%	5.9%
Taxes	<u>1.7%</u>	<u>-1.1%</u>	<u>2.4%</u>	<u>2.4%</u>
NI	2.6%	-1.6%	3.6%	3.6%



Analysis of Common Size Income Statements

- Computron has lower COGS (86.7) than industry (84.5), but higher other expenses. Result is that Computron has similar EBIT (7.1) as industry.



Percentage Change Analysis: % Change from First Year (2009)

<u><i>Income St.</i></u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>
Sales	0.0%	70.0%	105.0%
COGS	0.0%	73.9%	102.5%
Other exp.	0.0%	111.8%	80.3%
Depr.	<u>0.0%</u>	<u>518.8%</u>	<u>534.9%</u>
EBIT	0.0%	-91.7%	140.4%
Int. Exp.	<u>0.0%</u>	<u>181.6%</u>	<u>28.0%</u>
EBT	0.0%	-208.2%	188.3%
Taxes	<u>0.0%</u>	<u>-208.2%</u>	<u>188.3%</u>
NI	0.0%	-208.2%	188.3%



Analysis of Percent Change Income Statement

- We see that 2011 sales grew 105% from 2009, and that NI grew 188% from 2009.
- So Computron has become more profitable.



Percentage Change Balance Sheets: Assets

<u>Assets</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>
Cash	0.0%	-19.1%	55.6%
ST Invest.	0.0%	-58.8%	47.4%
AR	0.0%	80.0%	150.0%
Invent.	<u>0.0%</u>	<u>80.0%</u>	<u>140.0%</u>
Total CA	0.0%	73.2%	138.4%
Net FA	<u>0.0%</u>	<u>172.6%</u>	<u>142.7%</u>
TA	0.0%	96.5%	139.4%



Percentage Change Balance Sheets: Liabilities & Equity

<u>Liab. & Eq.</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>
AP	0.0%	122.5%	147.1%
Notes pay.	0.0%	260.0%	50.0%
Accruals	<u>0.0%</u>	<u>109.5%</u>	<u>179.4%</u>
Total CL	0.0%	175.9%	115.9%
LT Debt	0.0%	209.2%	54.6%
Total eq.	<u>0.0%</u>	<u>-16.0%</u>	<u>197.9%</u>
Total L&E	0.0%	96.5%	139.4%



Analysis of Percent Change Balance Sheets

- We see that total assets grew at a rate of 139%, while sales grew at a rate of only 105%. So asset utilization remains a problem.