

Applying Financial Statement Analysis

10

Comprehensive
Case

Prelude to Comprehensive Analysis

Steps in Analyzing Financial Statements

- *Explicitly define the analysis objectives*
- *Formulate specific questions and criteria consistent with the analysis objectives*
- *Identify the most effective and efficient tools of analysis*
- *Interpret the evidence*

Prelude to Comprehensive Analysis

Building Blocks of Analysis

Analysis emphasizes the following areas of inquiry—with varying degrees of importance

- **Preliminary Financial Analysis**—It implies business environment, company's structure, sales analysis, trends of development (sales, assets, etc.), synthetic results....
- **Short-term liquidity**--Ability to meet short-term obligations.
- **Cash flow and forecasting**--Future availability and disposition of cash.
- **Capital structure and solvency**--Ability to generate future revenues and meet long-term obligations.
- **Return on invested capital**--Ability to provide financial rewards sufficient to attract and retain financing.
- **Asset turnover**--Asset intensity in generating revenues to reach a sufficient profitability level.
- **Operating performance and profitability**--Success at maximizing revenues and minimizing expenses from operating activities over the long run.

Prelude to Comprehensive Analysis

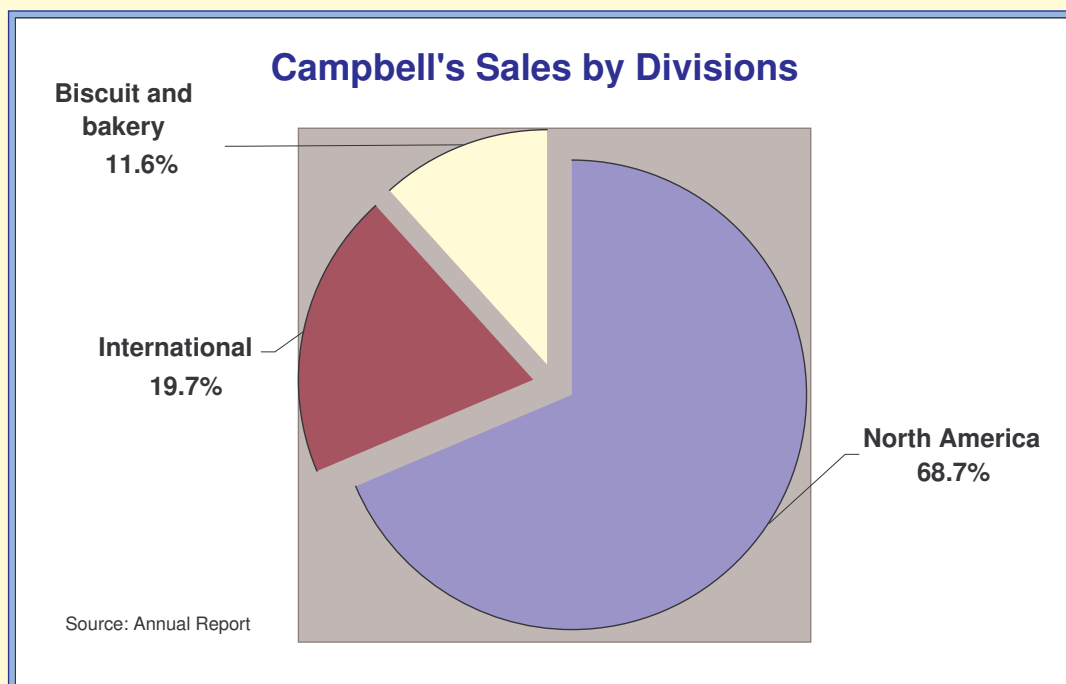
Reporting on Financial Statement Analysis

Analysis report typically contains at least six distinct sections:

1. **Executive Summary**--Brief summary focuses on important analysis results.
2. **Analysis overview**--Background material on the company, its industry, and its economic environment.
3. **Evidential matter**--Financial statements and information used in the analysis. This includes ratios, trends, statistics, and all analytical measures assembled.
4. **Assumptions**--Identification of important assumptions regarding a company's industry and environment, and other important assumptions for estimates or forecasts.
5. **Crucial factors**--Listing of important favorable and unfavorable factors, both quantitative and qualitative, for company performance—usually listed by areas of analysis.
6. **Inferences**--Includes forecasts, estimates, interpretations, and conclusions drawing on all four prior sections of the report.

Case: Campbell Soup Co.

Preliminary Financial Analysis



Case: Campbell Soup Co.

Preliminary Financial Analysis

Exhibit CC.2

CAMPBELL SOUP COMPANY Income Statements (millions)

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Net sales	\$ 6,204.1	\$ 6,205.8	\$ 5,672.1	\$ 4,868.9	\$ 4,490.4	\$ 4,286.8
Costs and expenses:						
Cost of products sold	\$ 4,095.5	\$ 4,258.2	\$ 4,001.6	\$ 3,392.8	\$ 3,180.5	\$ 3,082.7
Marketing and selling expenses	956.2	980.5	818.8	733.3	626.2	544.4
Administrative expenses	306.7	290.7	252.1	232.6	213.9	195.9
Research and development expenses	56.3	53.7	47.7	46.9	44.8	42.2
Interest expense	116.2	111.6	94.1	53.9	51.7	56.0
Interest income	(26.0)	(17.6)	(38.3)	(33.2)	(29.5)	(27.4)
Foreign exchange losses, net	0.8	3.3	19.3	16.6	4.8	0.7
Other expense (income)	26.2	14.7	32.4	(3.2)	(9.5)	5.5
Divestitures, restructuring, & unusual charges	0.0	339.1	343.0	40.6	0.0	0.0
Total costs and expenses	\$ 5,531.9	\$ 6,034.2	\$ 5,570.7	\$ 4,480.3	\$ 4,082.9	\$ 3,900.0
Earnings before equity in affil. & M.I.	\$ 672.2	\$ 171.6	\$ 101.4	\$ 388.6	\$ 407.5	\$ 386.8
Equity in earnings of affiliates	2.4	13.5	10.4	6.3	15.1	4.
Minority interests	(7.2)	(5.7)	(5.3)	(6.3)	(4.7)	(3.9)
Earnings before taxes	\$ 667.4	\$ 179.4	\$ 106.5	\$ 388.6	\$ 417.9	\$ 387.2
Taxes on earnings	265.9	175.0	93.4	147.0	170.6	164.0
Earnings before cumulative effect	\$ 401.5	\$ 4.4	\$ 13.1	\$ 241.6	\$ 247.3	\$ 223.2
Cumulative effect of change for taxes	0	0	0	32.5	0	0
Net earnings	\$ 401.5	\$ 4.4	\$ 13.1	\$ 274.1	\$ 247.3	\$ 223.2
Earnings per share	\$ 3.16	\$ 0.03	\$ 0.10	\$ 2.12*	\$ 1.90	\$ 1.72
Weighted-average shares outstanding	127.00	126.60	129.30	\$129.30	\$129.90	129.50

Case: Campbell Soup Co.

Preliminary Financial Analysis

Exhibit CC.3

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Balance Sheets						
Assets						
Current assets:						
Cash and cash equivalents	\$ 178.90	\$ 80.70	\$ 120.90	\$ 85.80	\$ 145.00	\$ 155.10
Other temporary investments	12.80	22.50	26.20	35.00	280.30	238.70
Accounts receivable	527.40	624.50	538.00	486.90	338.90	299.00
Inventories	706.70	819.80	816.00	664.70	623.60	610.50
Prepaid expenses	92.70	118.00	100.40	90.50	50.10	31.50
Total current assets	\$ 1,518.50	\$ 1,665.50	\$ 1,601.50	\$ 1,362.90	\$ 1,437.90	\$ 1,334.80
Plant assets, net of depreciation	\$ 1,790.40	\$ 1,717.70	\$ 1,540.60	\$ 1,508.90	\$ 1,349.00	\$ 1,168.10
Intangible assets, net of amortization	435.50	383.40	466.90	496.60	—	—
Other assets	404.60	349.00	323.10	241.20	310.50	259.90
Total assets	\$ 4,149.00	\$ 4,115.60	\$ 3,932.10	\$ 3,609.60	\$ 3,097.40	\$ 2,762.80
Liabilities and Shareowners' Equity						
Current liabilities:						
Notes payable	\$ 282.20	\$ 202.30	\$ 271.50	\$ 138.00	\$ 93.50	\$ 88.90
Payable to suppliers and others	482.40	525.20	508.20	446.70	374.80	321.70
Accrued liabilities	408.70	491.90	392.60	236.90	182.10	165.90
Dividend payable	37.00	32.30	29.70	—	—	—
Accrued income taxes	67.70	46.40	30.10	41.70	43.40	49.60
Total current liabilities	\$ 1,278.00	\$ 1,298.10	\$ 1,232.10	\$ 863.30	\$ 693.80	\$ 626.10
Long-term debt	\$ 772.60	\$ 805.80	\$ 629.20	\$ 525.80	\$ 380.20	\$ 362.30
Other liabilities, mainly deferred tax	305.00	319.90	292.50	325.50	287.30	235.50
Shareowner's equity:						
Preferred stock; authorized 40,000,000 sh.; none issued	—	—	—	—	—	—
Capital stock, \$0.15 par value; authorized 140,000,000 sh.; issued 135,622,676 sh.	20.30	20.30	20.30	20.30	20.30	20.30
Capital surplus	107.30	61.90	50.80	42.30	41.10	38.10
Earnings retained in the business	1,912.60	1,653.30	1,775.80	1,879.10	1,709.60	1,554.00
Capital stock in treasury, at cost	(270.40)	(107.20)	(70.70)	(75.20)	(46.80)	(48.40)
Cumulative translation adjustments	23.60	63.50	2.10	28.50	11.90	(25.10)
Total shareowner's equity	\$ 1,793.40	\$ 1,691.80	\$ 1,778.30	\$ 1,895.00	\$ 1,736.10	\$ 1,538.90
Total liabilities and shareowners' equity	\$ 4,149.00	\$ 4,115.60	\$ 3,932.10	\$ 3,609.60	\$ 3,097.40	\$ 2,762.80

Case: Campbell Soup Co.

Preliminary Financial Analysis

Exhibit CC.8

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6 (\$)
CAMPBELL SOUP COMPANY						
Trend Index of Selected Accounts						
(Year 6 = 100)						
Cash and cash equivalents	115%	52%	78%	55%	93%	\$155.1
Accounts receivable	176	209	180	163	113	299.0
Temporary investments	5	9	11	15	117	238.7
Inventory	116	134	134	109	102	610.5
Total current assets	114	125	120	102	108	1,334.8
Total current liabilities	204	207	197	138	111	626.1
Working capital	34	52	52	70	105	708.7
Plant assets, net	153	147	132	129	115	1,168.1
Other assets	156	134	124	93	119	259.9
Long-term debt	213	222	174	145	105	362.3
Total liabilities	192	198	176	140	111	1,223.9
Shareowners' equity	117	110	116	123	113	1,538.9
Net sales	145	145	132	114	105	4,268.8
Cost of products sold	133	138	130	110	103	3,082.7
Admin. and research expenses	157	148	129	119	109	195.9
Marketing and sales expenses	176	180	150	135	115	544.4
Interest expense	199	191	161	104	101	58.5
Total costs and expenses	142	155	143	115	105	3,900.0
Earnings before taxes	172	46	28	100	108	387.2
Net income	180	-102*	-104*	123	111	223.2

Case: Campbell Soup Co.

Preliminary Financial Analysis

Exhibit CC.9

CAMPBELL SOUP COMPANY

Per Share Results

	<i>Year 11</i>	<i>Year 10</i>	<i>Year 9</i>	<i>Year 8</i>	<i>Year 7</i>	<i>Year 6</i>
Sales	\$48.85	\$47.88	\$43.87	\$37.63	\$34.57	\$33.10
Net income	3.16	0.03	0.10	2.12	1.90	1.72
Dividends	1.12	0.98	0.90	0.81	0.71	0.65
Book value	14.12	13.09	13.76	14.69	13.35	11.86
Average shares outstanding (mil.)	127.0	129.6	129.3	129.4	129.9	129.5

Case: Campbell Soup Co.

Preliminary Financial Analysis

Exhibit CC.5

CAMPBELL SOUP COMPANY

Five-Year Growth Rates*

<i>Per share</i>	<i>Years 6 to 11</i>	<i>Average for [Years 6 to 8] to</i>	<i>Average for [Years 9 to 11]</i>
Sales	8.09%		5.95%
Net income	12.93		-10.53
Dividends	11.50		6.69
Equity	3.55		0.53

Ten-Year Growth Rates*

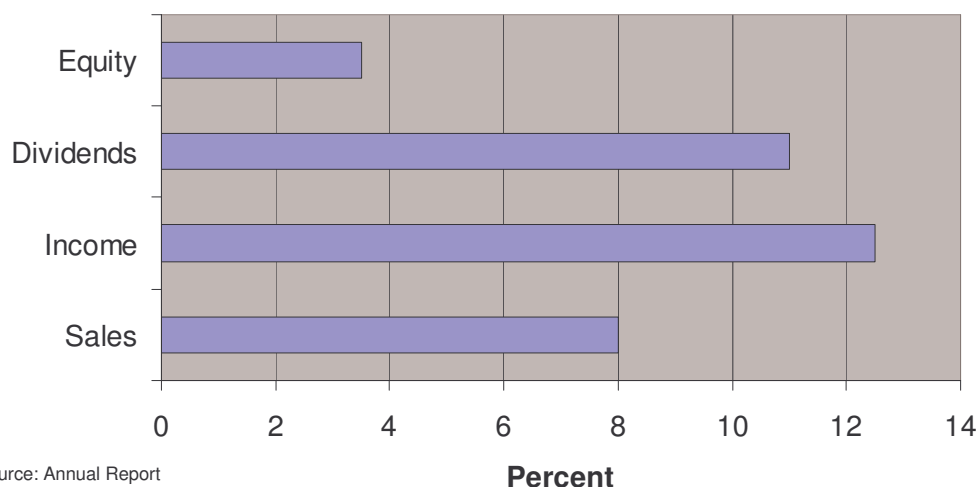
<i>Per share</i>	<i>Years 1 to 11</i>	<i>Average for [Years 1 to 3] to</i>	<i>Average for [Years 9 to 11]</i>
Sales	8.51%		7.22%
Net income	12.19		-0.44
Dividends	8.18		6.62
Equity	6.22		5.13

* Growth rates (annually compounded) are computed using the compound interest method:
 $FV = PV (1+r/100)^n$

Case: Campbell Soup Co.

Preliminary Financial Analysis

Campbell's Five-Year Growth Rates



Case: Campbell Soup Co.

Preliminary Financial Analysis

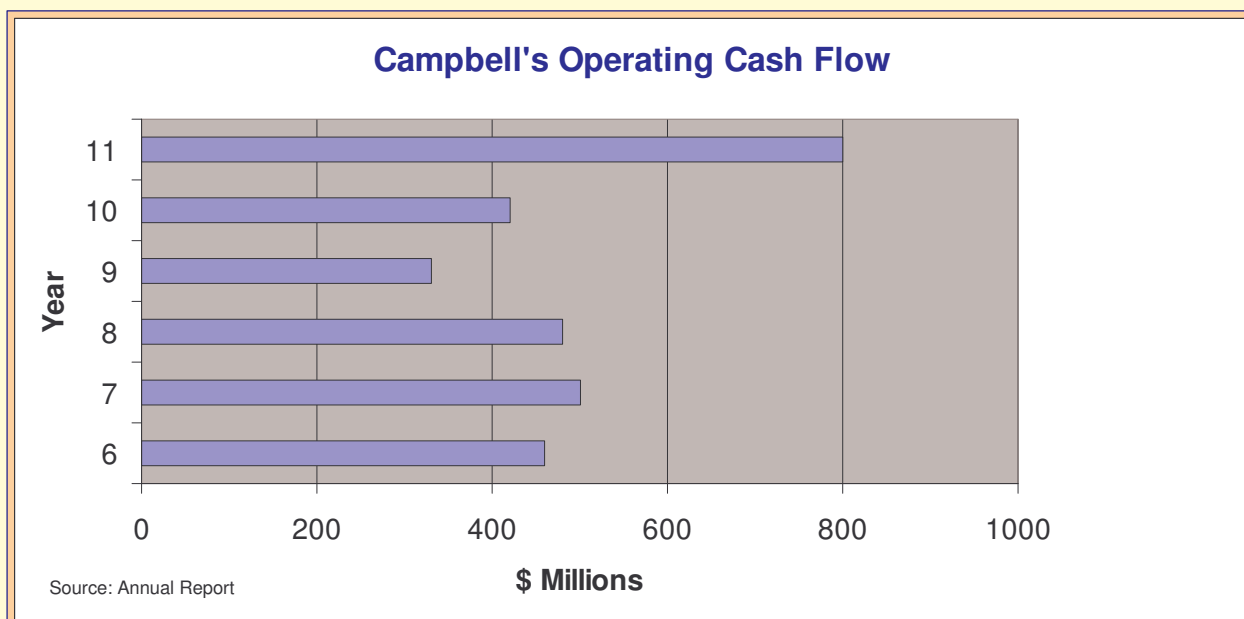
Exhibit CC.4

CAMPBELL SOUP COMPANY Statements of Cash Flows For Years 6 to 11 (\$ millions)

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Total
Cash flows from operating activities:							
Net earnings	\$401.5	\$ 4.4	\$ 13.1	\$274.1	\$247.3	\$223.2	\$ 1,163.6
To reconcile net earnings to net cash provided by operating activities:							
Depreciation and amortization	208.6	200.9	192.3	170.9	144.6	126.8	1,044.1
Divestitures and restructuring provisions	—	339.1	343.0	17.6	—	—	699.7
Deferred taxes	35.5	3.9	(67.8)	13.4	45.7	29.0	59.7
Other, net	63.2	18.6	37.3	43.0	28.0	16.6	206.7
Cumulative effect of accounting change	—	—	—	(32.5)	—	—	(32.5)
(Increase) decrease in accounts receivable	17.1	(60.4)	(46.8)	(104.3)	(36.3)	(3.6)	(234.3)
(Increase) decrease in inventories	48.7	10.7	(113.2)	54.2	(3.9)	23.1	19.6
Net change in other current assets and liabilities	30.6	(68.8)	(0.6)	30.2	42.9	48.7	83.0
Net cash provided by operating activities	\$805.2	\$448.4	\$357.3	\$466.6	\$468.3	\$463.8	\$ 3,009.6
Cash flows from investing activities:							
Purchases of plant assets	\$(361.1)	\$(387.6)	\$(284.1)	\$(245.3)	\$(303.7)	\$(235.3)	\$(1,817.1)
Sale of plant assets	43.2	34.9	39.8	22.6	—	29.8	170.3
Businesses acquired	(180.1)	(41.6)	(135.8)	(471.9)	(7.3)	(20.0)	(856.7)
Sale of businesses	67.4	21.7	4.9	23.5	20.8	—	138.3
Increase in other assets	(57.8)	(18.6)	(107.0)	(40.3)	(50.1)	(18.0)	(291.8)
Net change in other temporary investments	9.7	3.7	9.0	249.2	(60.7)	(144.1)	66.8
Net cash used in investing activities	\$(478.7)	\$(387.5)	\$(473.2)	\$(462.2)	\$(401.0)	\$(387.6)	\$ (2,590.2)
Cash flows from financing activities:							
Long-term borrowings	\$402.8	\$ 12.6	\$126.5	\$103.0	\$ 4.8	\$203.9	\$ 853.6
Repayments of long-term borrowings	(129.9)	(22.5)	(53.6)	(22.9)	(23.9)	(164.7)	(417.5)
Increase (decrease) in short-term borrowings*	(137.9)	(2.7)	108.2	8.4	(20.7)	4.6	(40.1)
Other short-term borrowings	117.3	153.7	227.1	77.0	89.3	72.9	737.3
Repayments of other short-term borrowings	(206.4)	(89.8)	(192.3)	(87.6)	(66.3)	(88.5)	(730.9)
Dividends paid	(137.5)	(124.3)	(86.7)	(104.6)	(91.7)	(104.6)	(649.4)
Treasury stock purchases	(175.6)	(41.1)	(8.1)	(29.3)	—	—	(254.1)
Treasury stock issued	47.7	12.4	18.5	0.9	1.6	4.0†	85.1
Other, net	(0.1)	(0.1)	23.5	2.3	18.6	17.9	62.1
Net cash provided (used in) financing activities	\$(219.6)	\$(101.8)	\$163.1	\$52.8	\$(88.3)	\$(54.5)	\$(353.9)
Effect of exchange rate change on cash	\$ (8.7)	\$ 0.7	\$ (12.1)	\$ (10.8)	\$ (7.1)	\$ (3.7)	\$(41.7)
Net increase (decrease) in cash and cash equivalents	98.2	(40.2)	35.1	(59.2)	(28.1)	18.0	23.8
Cash and cash equivalents at the beginning of year	80.7	120.9	85.8	145.0	173.1	155.1	760.6
Cash and cash equivalents at end of year	\$178.9	\$ 80.7	\$120.9	\$ 85.8	\$145.0	\$173.1	\$ 784.4

Case: Campbell Soup Co.

Cash Flow Analysis and Forecasting



Case: Campbell Soup Co.

Cash Flow Analysis and Forecasting

Exhibit CC.10

CAMPBELL SOUP COMPANY Common-Size Statements of Cash Flows*

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Total
Cash flows from operating activities:							
Net earnings	26.89%	0.54%	1.15%	25.14%	38.42%	27.88%	21.54%
To reconcile net earnings to net cash provided by operating activities:							
Depreciation and amortization	13.97	24.58	16.82	15.67	22.47	15.84	19.33
Divestitures and restructuring provisions	—	41.49	30.00	1.61	—	—	12.95
Deferred taxes	2.38	0.48	(5.93)	1.23	7.10	3.62	1.11
Other, net	4.23	2.28	3.26	3.94	4.35	2.07	3.83
Cumulative effect of accounting change	—	—	—	(2.98)	—	—	(0.60)
(Increase) decrease in accounts receivable	1.15	(7.39)	(4.09)	(9.57)	(5.64)	(0.45)	(4.34)
(Increase) decrease in inventories	3.26	1.31	(9.90)	4.97	(0.61)	2.89	0.36
Net change in other current assets & liabilities	2.05	(8.42)	(0.05)	2.77	6.67	6.08	1.54
Net cash provided by operating activities	53.92%	54.86%	31.25%	42.80%	72.76%	57.94%	55.72%
Cash flows from investing activities:							
Purchase of plant assets	(24.18)%	(47.42)%	(24.85)%	(22.50)%	(47.19)%	(29.39)%	(33.64)%
Sale of plant assets	2.89	4.27	3.48	2.07	—	3.72	3.15
Businesses acquired	(12.06)	(5.09)	(11.88)	(43.28)	(1.13)	(2.50)	(15.86)
Sale of businesses	4.51	2.66	0.43	2.16	3.23	—	2.56
Increase in other assets	(3.87)	(2.28)	(9.36)	(3.70)	(7.78)	(2.25)	(5.40)
Net change in other temporary investments	0.65	0.45	0.79	22.86	(9.43)	(18.00)	1.24
Net cash used in investing activities	(32.06)%	(47.41)%	(41.39)%	(42.39)%	(62.31)%	(48.42)%	(47.95)%
Cash flows from financing activities:							
Long-term borrowings	26.97%	1.54%	11.07%	9.45%	0.75%	25.47%	15.80%
Repayments of long-term borrowings	(8.70)	(2.75)	(4.69)	(2.10)	(3.71)	(20.57)	(7.73)
Increase (decrease) in short-term borrowings	(9.23)	(0.33)	9.46	0.77	(3.22)	0.57	(0.74)
Other short-term borrowings	7.86	18.81	19.87	7.06	13.88	9.11	13.65
Repayments of other short-term borrowings	(13.82)	(10.99)	(16.82)	(8.03)	(10.30)	(11.06)	(13.53)
Dividends paid	(9.21)	(15.21)	(7.58)	(9.59)	(14.25)	(13.07)	(12.02)
Treasury stock purchases	(11.76)	(5.03)	(0.71)	(2.69)	—	—	(4.70)
Treasury stock issued	3.19	1.52	1.62	0.08	0.25	0.50	1.58
Other, net	(0.01)	(0.01)	2.06	0.21	2.89	2.24	1.15
Net cash provided (used in) financing activities	(14.71)%	(12.46)%	14.27%	(4.84)%	(13.72)%	(6.81)%	(6.55)%
Effect of exchange rate change on cash	(0.58)%	0.09%	(1.06)%	(0.99)%	(1.10)%	(0.46)%	(0.77)%
Net increase (decrease) in cash & equivalents	6.58	(4.92)	3.07	(5.43)	(4.37)	2.25	0.44

Case: Campbell Soup Co.

Cash Flow Analysis and Forecasting

Summary of cash inflows and outflows by major categories

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Total
Operating activities	\$ 805.2	\$448.4	\$357.3	\$466.6	\$468.3	\$463.8	\$ 3,009.6
Investing activities	(478.7)	(387.5)	(473.2)	(462.2)	(401.0)	(387.6)	(2,590.2)
Financing activities	(219.6)	(101.8)	(163.1)	(52.8)	(88.3)	(54.5)	(353.9)
Increase (decrease) in cash	98.2	(40.2)	35.1	(59.2)	(28.1)	18.0	23.8

Case: Campbell Soup Co.

Cash Flow Analysis and Forecasting

Exhibit CC.11

CAMPBELL SOUP COMPANY Analysis of Cash Flow Ratios (\$ millions)

$$(1) \text{ Cash flow adequacy ratio}^* = \frac{\text{6-year sum of sources of cash from operations}}{\text{6-year sum of capital expenditures, inventory additions, and cash dividends}}$$

$$= \frac{3,009.6}{(1,817.1 + 856.7) + (113.2 + 3.9) + 649.4}$$

$$= 0.875$$

$$\text{Cash reinvestment ratio}^\dagger = \frac{\text{Cash provided by operations} - \text{Dividends}}{\text{Gross PPE} + \text{Investments} + \text{Other assets} + \text{Working capital}}$$

$$(2) \text{ Year 6 to Year 11 average} = \frac{3,009.6 - 649.4}{15,183.7 + 1,888.3 + 2,929.7} = 11.8\%$$

$$\text{Year 11} = \frac{805.2 - 137.5}{2,921.9 + 404.6 + 240.5} = 18.7\%$$

$$\text{Year 10} = \frac{448.4 - 124.3}{2,734.9 + 349.0 + 367.4} = 9.4\%$$

$$\text{Year 9} = \frac{357.3 - 86.7}{2,543.0 + 323.1 + 369.4} = 8.4\%$$

$$\text{Year 8} = \frac{466.6 - 104.6}{2,539.7 + 241.2 + 499.6} = 11.0\%$$

$$\text{Year 7} = \frac{468.3 - 91.7}{2,355.1 + 310.5 + 744.1} = 11.0\%$$

$$\text{Year 6} = \frac{463.8 - 104.6}{2,089.1 + 259.9 + 708.7} = 11.7\%$$

*All amounts are from the statement of cash flows.

† Numerator amounts are from the statement of cash flows and denominator amounts are from the balance sheet

Case: Campbell Soup Co.

Short-Term Analysis

Exhibit CC.12

CAMPBELL SOUP COMPANY Short-Term Liquidity Analysis

Units	Measure	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
1. Ratio	Current ratio	1.19	1.28	1.30	1.58	2.07	2.13	1.86
2. Ratio	Acid-test ratio	0.56	0.56	0.56	0.70	1.10	1.11	0.61
3. Times	Accounts receivable turnover	10.77	10.68	11.07	11.79	14.08	15.13	8.37
4. Times	Inventory turnover	5.37	5.21	5.41	5.27	5.15	5.14	2.53
5. Days	Days' sales in receivables	30.60	36.23	34.15	36.00	27.17	25.11	43.01
6. Days	Days' sales in inventory	62.12	69.31	73.41	70.53	70.59	71.29	142.03
7. Days	Approximate conversion period	92.72	105.54	107.56	106.53	97.76	96.40	185.32
8. Percent	Cash to current assets	11.78%	4.84%	7.55%	6.30%	10.14%	11.62%	5.60%
9. Percent	Cash to current liabilities	14.00%	6.22%	9.81%	9.94%	20.90%	24.77%	10.40%
11. M\$'s	Working capital	240.50	367.40	369.40	499.60	744.10	708.70	54.33
12. Days	Days' purchases in accounts payable	46.03	46.56	46.20	49.30	44.25	39.33	
13. Days	Average net trade cycle	46.69	58.98	61.36	57.23	53.51	57.07	
14. Percent	CFO to average current liabilities	62.51%	35.44%	34.10%	60.22%	71.36%	77.34%	

Case: Campbell Soup Co.

Short term analysis

Exhibit CC.8

CAMPBELL SOUP COMPANY Trend Index of Selected Accounts (Year 6 = 100)

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Cash and cash equivalents	115%	52%	78%	55%	93%	\$155.1
Accounts receivable	176	209	180	163	113	299.0
Temporary investments	5	9	11	15	117	238.7
Inventory	116	134	134	109	102	610.5
Total current assets	114	125	120	102	108	1,334.8
Total current liabilities	204	207	197	138	111	626.1
Working capital	34	52	52	70	105	708.7
Plant assets, net	153	147	132	129	115	1,168.1
Other assets	156	134	124	93	119	259.9
Long-term debt	213	222	174	145	105	362.3
Total liabilities	192	198	176	140	111	1,223.9
Shareowners' equity	117	110	116	123	113	1,538.9
Net sales	145	145	132	114	105	4,268.8
Cost of products sold	133	138	130	110	103	3,082.7
Admin. and research expenses	157	148	129	119	109	195.9
Marketing and sales expenses	176	180	150	135	115	544.4
Interest expense	199	191	161	104	101	58.5
Total costs and expenses	142	155	143	115	105	3,900.0
Earnings before taxes	172	46	28	100	108	387.2
Net income	180	-102*	-104*	123	111	223.2

Case: Campbell Soup Co.

Short term analysis

Exhibit CC.13

CAMPBELL SOUP COMPANY							
Common-Size Analysis of							
Current Assets and Current Liabilities							
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
Current assets:							
Cash and cash equivalents	11.78%	4.85%	7.55%	6.30%	10.09%	11.62%	5.60%
Other temporary investments	0.84	1.35	1.64	2.57	19.49	17.88	—
Accounts receivable	34.73	37.50	33.59	35.72	23.57	22.40	27.18
Inventories	46.54	49.22	50.95	48.77	43.37	45.74	63.60
Prepaid expenses	6.11	7.08	6.27	6.64	3.48	2.36	3.62
Total current assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Current liabilities:							
Notes payable	22.08%	15.58%	22.04%	15.99%	13.48%	14.20%	20.49%
Payable to suppliers and others	37.75	40.46	41.25	51.74	54.02	51.38	31.19
Accrued liabilities	31.98	37.89	31.86	27.44	26.25	26.50	} =48.32
Dividend payable	2.89	2.49	2.41	—	—	—	
Accrued income taxes	5.30	3.58	2.44	4.83	6.25	7.92	
Total current liabilities	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Case: Campbell Soup Co.

Short-Term Analysis

Exhibit CC.12

CAMPBELL SOUP COMPANY								
Short-Term Liquidity Analysis								
Units	Measure	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
1. Ratio	Current ratio	1.19	1.28	1.30	1.58	2.07	2.13	1.86
2. Ratio	Acid-test ratio	0.56	0.56	0.56	0.70	1.10	1.11	0.61
3. Times	Accounts receivable turnover	10.77	10.68	11.07	11.79	14.08	15.13	8.37
4. Times	Inventory turnover	5.37	5.21	5.41	5.27	5.15	5.14	2.53
5. Days	Days' sales in receivables	30.60	36.23	34.15	36.00	27.17	25.11	43.01
6. Days	Days' sales in inventory	62.12	69.31	73.41	70.53	70.59	71.29	142.03
7. Days	Approximate conversion period	92.72	105.54	107.56	106.53	97.76	96.40	185.32
8. Percent	Cash to current assets	11.78%	4.84%	7.55%	6.30%	10.14%	11.62%	5.60%
9. Percent	Cash to current liabilities	14.00%	6.22%	9.81%	9.94%	20.90%	24.77%	10.40%
10. Days	Liquidity index	59.87	72.62	72.55	71.46	52.29	52.07	130.62
11. M\$'s	Working capital	240.50	367.40	369.40	499.60	744.10	708.70	54.33
12. Days	Days' purchases in accounts payable	46.03	46.56	46.20	49.30	44.25	39.33	
13. Days	Average net trade cycle	46.69	58.98	61.36	57.23	53.51	57.07	
14. Percent	CFO to average current liabilities	62.51%	35.44%	34.10%	60.22%	71.36%	77.34%	

Case: Campbell Soup Co.

Short-Term analysis

Exhibit CC.13

CAMPBELL SOUP COMPANY Common-Size Analysis of Current Assets and Current Liabilities							
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
Current assets:							
Cash and cash equivalents	11.78%	4.85%	7.55%	6.30%	10.09%	11.62%	5.60%
Other temporary investments	0.84	1.35	1.64	2.57	19.49	17.88	—
Accounts receivable	34.73	37.50	33.59	35.72	23.57	22.40	27.18
Inventories	46.54	49.22	50.95	48.77	43.37	45.74	63.60
Prepaid expenses	6.11	7.08	6.27	6.64	3.48	2.36	3.62
Total current assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Current liabilities:							
Notes payable	22.08%	15.58%	22.04%	15.99%	13.48%	14.20%	20.49%
Payable to suppliers and others	37.75	40.46	41.25	51.74	54.02	51.38	31.19
Accrued liabilities	31.98	37.89	31.86	27.44	26.25	26.50	} =48.32
Dividend payable	2.89	2.49	2.41	—	—	—	
Accrued income taxes	5.30	3.58	2.44	4.83	6.25	7.92	
Total current liabilities	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Case: Campbell Soup Co.

Short-Term Analysis

Exhibit CC.12

CAMPBELL SOUP COMPANY Short-Term Liquidity Analysis								
Units	Measure	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
1. Ratio	Current ratio	1.19	1.28	1.30	1.58	2.07	2.13	1.86
2. Ratio	Acid-test ratio	0.56	0.56	0.56	0.70	1.10	1.11	0.61
3. Times	Accounts receivable turnover	10.77	10.68	11.07	11.79	14.08	15.13	8.37
4. Times	Inventory turnover	5.37	5.21	5.41	5.27	5.15	5.14	2.53
5. Days	Days' sales in receivables	30.60	36.23	34.15	36.00	27.17	25.11	43.01
6. Days	Days' sales in inventory	62.12	69.31	73.41	70.53	70.59	71.29	142.03
7. Days	Approximate conversion period	92.72	105.54	107.56	106.53	97.76	96.40	185.32
8. Percent	Cash to current assets	11.78%	4.84%	7.55%	6.30%	10.14%	11.62%	5.60%
9. Percent	Cash to current liabilities	14.00%	6.22%	9.81%	9.94%	20.90%	24.77%	10.40%
10. Days	Liquidity index	59.87	72.62	72.55	71.46	52.29	52.07	130.62
11. M\$'s	Working capital	240.50	367.40	369.40	499.60	744.10	708.70	54.33
12. Days	Days' purchases in accounts payable	46.03	46.56	46.20	49.30	44.25	39.33	
13. Days	Average net trade cycle	46.69	58.98	61.36	57.23	53.51	57.07	
14. Percent	CFO to average current liabilities	62.51%	35.44%	34.10%	60.22%	71.36%	77.34%	

Case: Campbell Soup Co.

Short-Term Analysis

Exhibit CC.12

Short-Term Liquidity Analysis

Units	Measure	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
1. Ratio	Current ratio	1.19	1.28	1.30	1.58	2.07	2.13	1.86
2. Ratio	Acid-test ratio	0.56	0.56	0.56	0.70	1.10	1.11	0.61
3. Times	Accounts receivable turnover	10.77	10.68	11.07	11.79	14.08	15.13	8.37
4. Times	Inventory turnover	5.37	5.21	5.41	5.27	5.15	5.14	2.53
5. Days	Days' sales in receivables	30.60	36.23	34.15	36.00	27.17	25.11	43.01
6. Days	Days' sales in inventory	62.12	69.31	73.41	70.53	70.59	71.29	142.03
7. Days	Approximate conversion period	92.72	105.54	107.56	106.53	97.76	96.40	185.32
8. Percent	Cash to current assets	11.78%	4.84%	7.55%	6.30%	10.14%	11.62%	5.60%
9. Percent	Cash to current liabilities	14.00%	6.22%	9.81%	9.94%	20.90%	24.77%	10.40%
10. M\$'s	Working capital	240.50	367.40	369.40	499.60	744.10	708.70	54.33
11. Days	Days' purchases in accounts payable	46.03	46.56	46.20	49.30	44.25	39.33	
12. Days	Average net trade cycle	46.69	58.98	61.36	57.23	53.51	57.07	
13. Percent	CFO to average current liabilities	62.51%	35.44%	34.10%	60.22%	71.36%	77.34%	

Case: Campbell Soup Co.

Short-Term liquidity: summary and inferences

Assessment of short-term liquidity is mixed:

- Both current and acid-test ratio**— worsened and not favorable comparing with industry average.
- Cash position**— compares favorably with its industry.
- Account receivables and inventory turnovers** – improving (inventory) and (both) better than industry norms.
- Conversion period**—Better than that of the industry
- Cash flows position**— strong, allowing the company to be used for non-operating activities like acquisitions and retirement of debt

Prelude to Comprehensive Analysis

Building Blocks of Analysis

Analysis emphasizes the following areas of inquiry—with varying degrees of importance

- **Preliminary Financial Analysis**—It implies business environment, company's structure, sales analysis, trends of development (sales, assets, etc.), synthetic results....
- **Short-term liquidity**--Ability to meet short-term obligations.
- **Cash flow and forecasting**--Future availability and disposition of cash.
- **Capital structure and solvency**--Ability to generate future revenues and meet long-term obligations.
- **Return on invested capital**--Ability to provide financial rewards sufficient to attract and retain financing.
- **Asset turnover**--Asset intensity in generating revenues to reach a sufficient profitability level.
- **Operating performance and profitability**--Success at maximizing revenues and minimizing expenses from operating activities over the long run.

Case: Campbell Soup Co.

Capital Structure and Solvency

Exhibit CC.16

CAMPBELL SOUP COMPANY Analysis of Capital Structure (mil.)						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Long-term liabilities:						
Notes payable	\$757.8	\$792.9	\$610.3	\$507.1	\$358.8	\$346.7
Capital lease obligation	14.8	12.9	18.9	18.7	21.4	15.6
Total long-term debt	\$772.6	\$805.8	\$629.2	\$525.8	\$380.2	\$362.3
Deferred income taxes*	129.3	117.6	109.0	140.3	124.0	99.6
Other long-term liabilities	23.0	28.5	19.6	15.6	15.8	16.3
Total long-term liabilities	\$924.9	\$951.9	\$757.8	\$681.7	\$520.0	\$478.2
Current liabilities†	1,278.0	1,298.1	1,232.1	863.3	693.8	626.1
Total liabilities	\$2,202.9	\$2,250.0	\$1,989.9	\$ 1,545.0	\$ 1,213.8	\$ 1,104.
Equity capital:						
Common shareholders' equity	\$1,793.4	\$1,691.8	\$1,778.3	\$1,895.0	\$1,736.1	\$ 1,538.9
Minority interests	23.5	56.3	54.9	29.3	23.5	20.1
Deferred income taxes*	129.2	117.5	109.0	140.3	124.0	99.5
Total equity capital	\$ 1,946.1	\$ 1,865.6	\$ 1,942.2	\$ 2,064.6	\$ 1,883.6	\$ 1,658.5
Total liabilities and equity	\$ 4,149.0	\$ 4,115.6	\$ 3,932.1	\$ 3,609.6	\$ 2,097.4	\$ 2,762.8

Case: Campbell Soup Co.

Capital structure and Solvency: summary and inferences

1. **Less conservative capital structure**— total liabilities make up about 53% of total financing and long-term liabilities equal about one-half of equity, aligning its capital structure to the industry norms .
2. **Earnings to fixed charges and cash flow to fixed charges are strong** – this implies good protection for Campbell’s creditors.
3. **Strength to take additional debt** – despite a riskier capital structure the market continues to assign Campbell a good credit rating (AA from AAA)

Case: Campbell Soup Co.

Return on Invested Capital

Exhibit CC.19

	Return on Invested Capital Ratios						
	Year 11	Year 10*	Year 9*	Year 8	Year 7	Year 6	Year 11 Industry Composite
1. Return on assets (ROA)	11.75%	2.08%	2.13%	9.42%	9.57%	9.90%	9.20%
2. Return on common equity* (ROCE)*	21.52%	0.24%	0.67%	14.07%	14.14%	14.40%	19.80%
3. Return on long-term debt and equity	17.07%	3.04%	2.96%	12.27%	12.35%	12.90%	13.50%
4. Financial leverage index (ROCE ÷ ROA)	1.83	0.12	0.31	1.49	1.48	1.46	2.15
5. Equity growth rate	13.85%	-6.30%	-3.67%	8.59%	8.79%	8.96%	—
6. Disaggregation of return on common equity*							
Adjusted profit margin	6.47%	0.07%	0.23%	5.63%	5.51%	5.10%	6.60%
	x	x	x	x	x	x	x
Asset turnover	1.50	1.54	1.50	1.45	1.53	1.68	1.38
	x	x	x	x	x	x	x
Financial leverage ratio	2.22	2.18	1.92	1.72	1.68	1.68	2.17
	21.52%	0.24%	0.67%	14.07%	14.14%	14.40%	19.80%

Case: Campbell Soup Co.

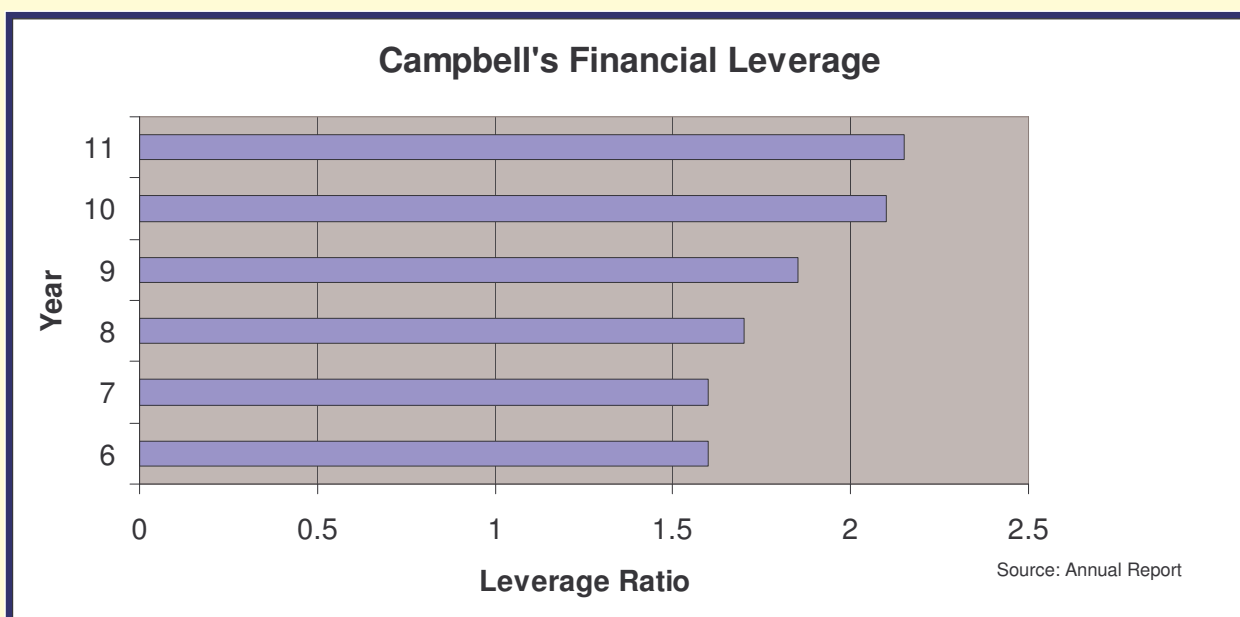
Return on Invested Capital

Exhibit CC.6

CAMPBELL SOUP COMPANY Common-Size Income Statements						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Costs and expenses:						
Cost of products sold	66.01%	68.62%	70.55%	69.68%	70.83%	71.91%
Marketing and selling expenses	15.41	15.80	14.44	15.06	13.95	12.70
Administrative expenses	4.94	4.68	4.44	4.78	4.76	4.57
Research and development expenses	0.91	0.87	0.84	0.96	1.00	0.98
Interest expense	1.87	1.80	1.66	1.11	1.15	1.31
Interest income	(0.42)	(0.28)	(0.68)	(0.68)	(0.66)	(0.64)
Foreign exchange losses, net	0.01	0.05	0.34	0.34	0.11	0.02
Other expense (income)	0.42	0.24	0.57	(0.07)	(0.21)	0.13
Divestitures, restructuring & unusual charges	—	5.46	6.05	0.83	—	—
Total costs and expenses	89.17%	97.23%	98.21%	92.02%	90.93%	90.98%
Earnings before equity in earnings of affiliates and minority interests	10.83%	2.77%	1.79%	7.98%	9.07%	9.02%
Equity in earnings of affiliates	0.04	0.22	0.18	0.13	0.34	0.10
Minority interests	(0.12)	(0.09)	(0.09)	(0.13)	(0.10)	(0.09)
Earnings before taxes	10.76%	2.89%	1.88%	7.98%	9.31%	9.03%
Taxes on earnings	4.29	2.82	1.65	3.02	3.80	3.83
Earnings before cumulative effect of accounting change	6.47%	0.07%	0.23%	4.96%	5.51%	5.21%
Cumulative effect of change in accounting for income taxes	—	—	—	0.67	—	—
Net earnings	6.47%	0.07%	0.23%	5.63%	5.51%	5.21%

Case: Campbell Soup Co.

Return on Invested Capital



Case: Campbell Soup Co.

Return on Invested Capital: summary and inferences

1. **Return on Assets**— It is variable. In Y 6 through Y 8 is stable around 9.5%; in Y 9 and 10 it declines due primarily to divestitures, restructuring and unusual charges. In Y 11 it rebounds to a strong 11,75%, comparing favorably to the industry average of 9.2%
2. **Return on Equity**– it is 21,52% in Y 11 and exceeds the industry norms of 19.8%
3. **Financial leverage** – Important factor affecting return on common equity. It is 2.22 in Y 11 and higher than prior years mainly due to a more risky capital structure.
4. **Equity growth rate** – has markedly increased in Y 11 (13,85%) due to strong earnings and a higher rate of earning retention. Negative ratios for Y9 and Y10 are because Campbell maintained its dividend payout with its divesture and restructuring.

Case: Campbell Soup Co.

Asset Utilization

Exhibit CC.20

CAMPBELL SOUP COMPANY Asset Utilization Ratios

	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Year 11 Industry Composite
1. Sales to cash and equivalents	34.7	76.9	46.9	56.8	31.0	27.6	<u>40.6</u>
2. Sales to receivables	11.8	9.9	10.5	10.0	13.2	14.3	<u>8.4</u>
3. Sales to inventories	8.8	7.6	7.0	7.3	7.2	7.0	<u>3.6</u>
4. Sales to working capital	25.8	16.9	15.4	9.8	6.0	6.1	<u>4.9</u>
5. Sales to fixed assets	3.5	3.6	3.7	3.2	3.3	3.7	<u>6.6</u>
6. Sales to other assets*	7.4	8.5	7.2	6.6	14.5	16.5	<u>7.5</u>
7. Sales to total assets	1.5	1.54	1.50	1.45	1.53	1.68	<u>1.38</u>
8. Sales to short-term liabilities	4.9	4.8	4.6	5.6	6.5	6.9	<u>4.2</u>

Case: Campbell Soup Co.

Asset Utilization

Exhibit CC.7

CAMPBELL SOUP COMPANY							
Common-Size Balance Sheets							
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6	Industry Composite Year 11
Current assets:							
Cash and cash equivalents	4.31%	1.96%	3.07%	2.38%	4.69%	5.61%	3.4%
Other temporary investments	0.31	0.55	0.67	0.97	9.05	8.64	
Accounts receivable	12.71	15.17	13.68	13.49	10.94	10.82	16.5
Inventories	17.03	19.92	20.75	18.41	20.13	22.10	38.6
Prepaid expenses	2.23	2.87	2.55	2.51	1.62	1.14	2.2
Total current assets	36.60%	40.47%	40.73%	37.76%	46.43%	48.31%	60.70%
Plant assets, net of depreciation	43.15%	41.74%	39.18%	41.80%	43.55%	42.28%	21.0%
Intangible assets, net of amortization	10.50	9.32	11.87	13.76	—	—	
Other assets	9.75	8.48	8.22	6.68	10.02	9.41	18.3
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Current liabilities:							
Notes payable	6.80%	4.92%	6.90%	3.82%	3.02%	3.22%	6.7%
Payable to suppliers and others	11.63	12.76	12.92	12.38	12.10	11.64	10.2
Accrued liabilities	9.85	11.95	9.98	6.56	5.88	6.00	15.8
Dividend payable	0.89	0.78	0.76	—	—	—	
Accrued income taxes	1.63	1.13	0.77	1.16	1.40	1.80	
Total current liabilities	30.80%	31.54%	31.33%	23.92%	22.40%	22.66%	32.70%
Long-term debt	18.62%	19.58%	16.00%	14.57%	12.27%	13.11%	19.7%
Other liabilities, mainly deferred taxes	7.35	7.77	7.44	9.02	9.28	8.52	1.5
Shareowner's equity:							
Preferred stock; auth 40,000,000 sh.; none issued	—	—	—	—	—	—	
Capital stock, \$0.15 par value; authorized 140,000,000 sh.; issued 135,622,676 sh.	0.49	0.49	0.52	0.56	0.66	0.73	
Capital surplus	2.59	1.50	1.29	1.17	1.33	1.38	
Earnings retained in the business	46.10	40.17	45.16	52.06	55.19	56.25	
Capital stock in treasury, at cost	6.52	2.60	1.80	2.08	1.51	1.75	
Cumulative translation adjustments	0.57	1.54	0.05	0.79	0.38	0.91	
Total shareowner's equity	43.22%	41.11%	45.23%	52.50%	56.05%	55.70%	46.10%
Total liabilities and equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

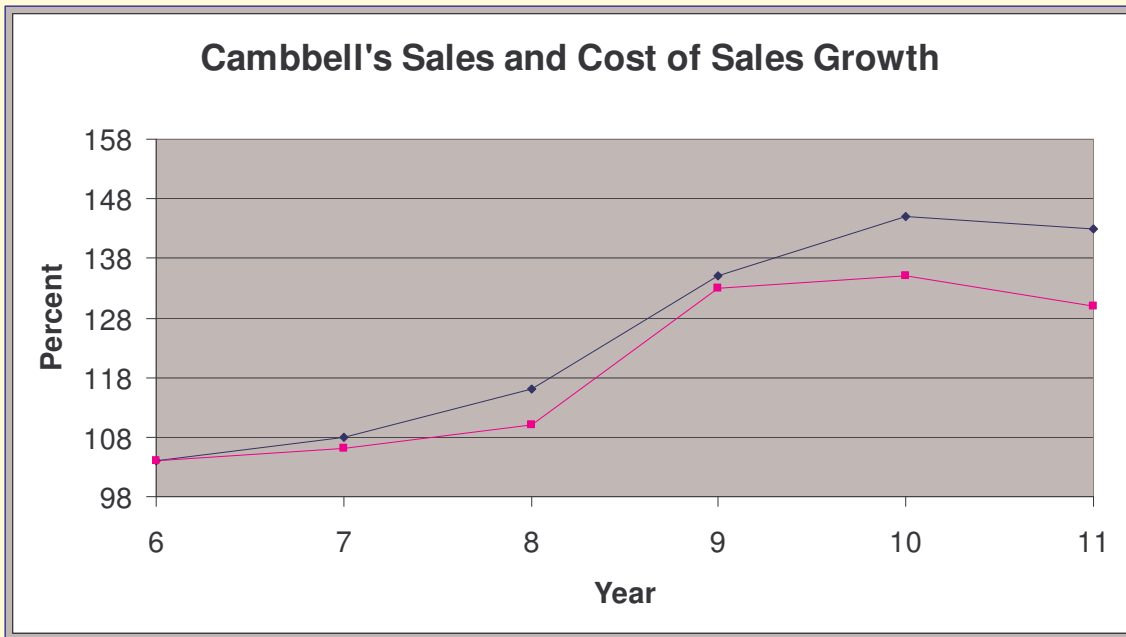
Case: Campbell Soup Co.

Asset Utilization: summary and inferences

- 1. Total Assets turnover**— It is stable and higher than the industry average
- 2. Account Receivables and Inventory turnover** – are improving and higher than industry norms. These improvement are due to company's efforts to reduce working capital (less receivables and inventories)
- 3. Cash and fixed asset turnover** – More erratic and lower than industry average.

Case: Campbell Soup Co.

Profitability Analysis



Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.21

ANALYSIS OF PROFIT MARGIN RATIOS

<i>Profit margins</i>	<i>Year 11</i>	<i>Year 10</i>	<i>Year 9</i>	<i>Year 8</i>	<i>Year 7</i>	<i>Year 6</i>	<i>Year 11 Industry Composite</i>
1. Gross profit margin	34.00%	31.38%	29.45%	30.32%	29.17%	28.09%	29.30%
2. Operating profit margin	12.63%	4.69%	3.54%	9.09%	10.46%	10.34%	—
3. Net profit margin	6.47%	0.07%	0.23%	5.63%	5.51%	5.21%	6.60%

Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.6

CAMPBELL SOUP COMPANY Common-Size Income Statements						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Costs and expenses:						
Cost of products sold	66.01%	68.62%	70.55%	69.68%	70.83%	71.91%
Marketing and selling expenses	15.41	15.80	14.44	15.06	13.95	12.70
Administrative expenses	4.94	4.68	4.44	4.78	4.76	4.57
Research and development expenses	0.91	0.87	0.84	0.96	1.00	0.98
Interest expense	1.87	1.80	1.66	1.11	1.15	1.31
Interest income	(0.42)	(0.28)	(0.68)	(0.68)	(0.66)	(0.64)
Foreign exchange losses, net	0.01	0.05	0.34	0.34	0.11	0.02
Other expense (income)	0.42	0.24	0.57	(0.07)	(0.21)	0.13
Divestitures, restructuring & unusual charges	—	5.46	6.05	0.83	—	—
Total costs and expenses	89.17%	97.23%	98.21%	92.02%	90.93%	90.98%
Earnings before equity in earnings of affiliates and minority interests	10.83%	2.77%	1.79%	7.98%	9.07%	9.02%
Equity in earnings of affiliates	0.04	0.22	0.18	0.13	0.34	0.10
Minority interests	(0.12)	(0.09)	(0.09)	(0.13)	(0.10)	(0.09)
Earnings before taxes	10.76%	2.89%	1.88%	7.98%	9.31%	9.03%
Taxes on earnings	4.29	2.82	1.65	3.02	3.80	3.83
Earnings before cumulative effect of accounting change	6.47%	0.07%	0.23%	4.96%	5.51%	5.21%
Cumulative effect of change in accounting for income taxes	—	—	—	0.67	—	—
Net earnings	6.47%	0.07%	0.23%	5.63%	5.51%	5.21%

Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.8

CAMPBELL SOUP COMPANY Trend Index of Selected Accounts (Year 6 = 100)						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Cash and cash equivalents	115%	52%	78%	55%	93%	\$155.1
Accounts receivable	176	209	180	163	113	299.0
Temporary investments	5	9	11	15	117	238.7
Inventory	116	134	134	109	102	610.5
Total current assets	114	125	120	102	108	1,334.8
Total current liabilities	204	207	197	138	111	626.1
Working capital	34	52	52	70	105	708.7
Plant assets, net	153	147	132	129	115	1,168.1
Other assets	156	134	124	93	119	259.9
Long-term debt	213	222	174	145	105	362.3
Total liabilities	192	198	176	140	111	1,223.9
Shareowners' equity	117	110	116	123	113	1,538.9
Net sales	145	145	132	114	105	4,268.8
Cost of products sold	133	138	130	110	103	3,082.7
Admin. and research expenses	157	148	129	119	109	195.9
Marketing and sales expenses	176	180	150	135	115	544.4
Interest expense	199	191	161	104	101	58.5
Total costs and expenses	142	155	143	115	105	3,900.0
Earnings before taxes	172	46	28	100	108	387.2
Net income	180	-102*	-104*	123	111	223.2

Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.8

CAMPBELL SOUP COMPANY						
Trend Index of Selected Accounts (Year 6 = 100)						
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Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.6

CAMPBELL SOUP COMPANY						
Common-Size Income Statements						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Costs and expenses:						
Cost of products sold	66.01%	68.62%	70.55%	69.68%	70.83%	71.91%
Marketing and selling expenses	15.41	15.80	14.44	15.06	13.95	12.70
Administrative expenses	4.94	4.68	4.44	4.78	4.76	4.57
Research and development expenses	0.91	0.87	0.84	0.96	1.00	0.98
Interest expense	1.87	1.80	1.66	1.11	1.15	1.31
Interest income	(0.42)	(0.28)	(0.68)	(0.68)	(0.66)	(0.64)
Foreign exchange losses, net	0.01	0.05	0.34	0.34	0.11	0.02
Other expense (income)	0.42	0.24	0.57	(0.07)	(0.21)	0.13
Divestitures, restructuring & unusual charges	—	5.46	6.05	0.83	—	—
Total costs and expenses	89.17%	97.23%	98.21%	92.02%	90.93%	90.98%
Earnings before equity in earnings of affiliates and minority interests	10.83%	2.77%	1.79%	7.98%	9.07%	9.02%
Equity in earnings of affiliates	0.04	0.22	0.18	0.13	0.34	0.10
Minority interests	(0.12)	(0.09)	(0.09)	(0.13)	(0.10)	(0.09)
Earnings before taxes	10.76%	2.89%	1.88%	7.98%	9.31%	9.03%
Taxes on earnings	4.29	2.82	1.65	3.02	3.80	3.83
Earnings before cumulative effect of accounting change	6.47%	0.07%	0.23%	4.96%	5.51%	5.21%
Cumulative effect of change in accounting for income taxes	—	—	—	0.67	—	—
Net earnings	6.47%	0.07%	0.23%	5.63%	5.51%	5.21%

Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.22

CAMPBELL SOUP COMPANY						
Analysis of Depreciation						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
1. Accumulated depreciation as a percent of gross plant assets*	44.6%	42.3%	43.1%	43.7%	46.6%	48.6%
2. Annual depreciation expenses as a percent of gross plant	7.7%	7.7%	7.6%	6.9%	6.4%	6.4%
3. Annual depreciation expenses as a percent of sales	3.1%	3.0%	3.1%	3.3%	3.1%	2.8%

Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.23

CAMPBELL SOUP COMPANY						
Analysis of Discretionary Expenditures (\$ mil.)						
	Year 11	Year 10	Year 9	Year 8	Year 7	Year 6
Net sales	\$ 6,204.1	\$ 6,205.8	\$ 5,672.1	\$ 4,868.9	\$ 4,490.4	
Plant assets (net)*	1,406.5	1,386.9	1,322.6	1,329.1		
Maintenance and repairs	173.9	180.6	173.9	155.6	148.8	144.0
Advertising	195.4	220.4	212.9	219.1	203.5	181.4
Research & development (R&D)	56.3	53.7	47.7	46.9	44.8	42.2
Maintenance and repairs ÷ sales	2.8%	2.9%	3.1%	3.2%	3.3%	3.4%
Maintenance and repairs ÷ plant	12.4	13.0	13.1	11.7	12.9	14.8
Advertising ÷ sales	3.1	3.6	3.8	4.5	4.5	4.2
R&D ÷ sales	0.9	0.9	0.8	1.0	1.0	1.0

Case: Campbell Soup Co.

Profitability Analysis

Exhibit CC.8

CAMPBELL SOUP COMPANY						
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Case: Campbell Soup Co.

Profitability: summary and inferences

- Gross profit margin** — It is steadily improving and above the industry average
- Net profit margin** – It is not as solid as gross margin, due primarily to increasing of operating expenses. Recent activities suggest that Campbell is attempting to gain a greater control over these expenses