

Companies A70, B80, C90 and D0

or

how relative financial analysis can be

If you wish to ask questions (and get answers from the author of this case study), please do not hesitate to use the e-mail of the web site www.vernimmen.com

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Questions

1. Financial analysis of Company A70:

- Analyze the income statement and comment on the corporate policy regarding growth, margin and efficiency of human and financial resources.
- Analyze the investments required by the firm's business: acquisition of fixed assets or increase in working capital. Compute the turnover ratios of the components of the working capital need. Do not include tax.
- Analyze the financing needs resulting from both the above investments and the financial structure of the firm.
- Analyze the return on capital employed (ROCE) and the return on shareholders' equity (ROE).
- Summarize your financial analysis of Company A70.

2. Financial analysis of Company B80, Company C90 and Company D0

- ditto as above

3. Comparative analysis of the firms

Compare companies B80, C90 and D0 with company A70 in terms of:

- real and nominal growth
- type of working capital need required by the growth
- financing policy

Compare the levels of Return On Shareholders' Equity of the three firms and their sources (see Return On Capital Employed and leverage effect).

4. Financial policy

Identify the key elements of these three very different financial policies. Derive generic models of financial policy according to the macroeconomic conditions and the interest rates.

5. Conclusion

Identify A70, B80, C90 and D0 considering that:

- A70's financial statements are reported in FRF m
- B80's financial statements are reported in FRF bn
- C90 and D0's financial statements are reported in €bn
- A70, B80, C90 and D0 are all French industrial firms

Note: given the wide range of this analysis, focus more on the major trends (ie. between the starting point and the ending point) than on the limited variations (ie. from one year to another). Tables can be downloaded from the www.vernimmen.com website.

A70

B80

C 90

D0

APPENDICES

Appendix 1: Company A70: Issuance of shares in 1973

Issue of shares	FRF 122 m
Initial number of shares	487 250
Final number of shares	535 975 ie. + 48 725 (+10%)
Initial Shareholders' Equity	FRF 103 m
Final Shareholders' Equity	FRF 225 m ie. +FRF 122 m(+118%)
Initial Market Value	FRF 2 230 m
Final Market Value	FRF 2 352 m ie. +FRF 122 m(+5%)
Percentage of control of the main shareholder A70	
	Initial 75%
	Final 71%
Price Earning Ratio (P/E)	74

Appendix 2: Company B80: Issuance of shares in 1987

Issue of shares	FRF 5 bn
Initial number of shares	16,8 m
Final number of shares	18,4 m ie. + 1,6 m(+10%)
Initial Shareholders' Equity	FRF 11 bn
Final Shareholders' Equity	FRF 16 bn ie. + FRF 5 bn (+45%)
Initial Market Value	FRF 25 bn
Final Market Value	FRF 30 bn ie. + FRF 5 bn (+20%)
Percentage of control of the B80 family (in voting rights)	
	Initial 50%
	Final 42%
Price Earning Ratio (P/E)	5