

**Finance 210**

**Case study- Ratio analysis**

**Section 10**

**Group A**

**B&G Foods**

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**B&G Overview (Company):**

Bloch & Guggenheimer commonly known as B&G was found in 1996 in Delaware where the B companies Holdings Corp was incorporated. The company is headquartered in Parsippany, New Jersey and employs an estimate of 731 people. B&G Foods and its subsidiaries manufacturers sell and distribute over the United States, Canada and Puerto Rico a wide variety of food products that are marketed under several brands.

B&G food products include spices and peppers, seasonings, ot sauces, Mexican- style sauces, salad dressing, hot cereals, jams, fruit spreads and jellies, maple syrup and canned beans and meat. However, the brand names under which B&G sells its products include B&G, B&M, Cream of wheat, Cream of Rice, Sal Del, Red Devil, Emeril’s Grandma’s Molasses, Las Palmas, Joan of Arc, Maple Grove Farms of Vermont, Vermont Maid and Wright’s, Ortega, Polaner, Brer Rabbit and Ac’cent.

At the end of B&G fiscal year of 2009; January 2010, the company recorded an increase in revenues of 2.9% worth $501 million. Operating profits also increased by 19.5% worth $88.3 million and net profit of $17.4million in the fiscal year of 2010, an increase of 79.2%.

**B&G Business Description (Company):**

As far as B&G Foods (B&G) is concerned, B&G sells, distribute and market efficiently its processed and package food products in US, Canada and Puerto Rico through multiple- channel sales. These food products are marketed and distributed to all major food channels such as, sales and shipment to supermarket, warehouse clubs, mass merchants, wholesalers, military commissaries, food service distributors, direct accounts, non food- outlets including drug store chains and dollar stores.

B&G subsidiaries are specialized in specific products where each one has a specific brand name. For instance, Ortega brand provide Mexican foods which include taco shells, tortillas, taco sauces and introduced lately rice. However, B&G produce olives, peppers, shelf- stable pickles. Polaner on the other hand, produce fruit based spreads and wet spices.

**General Mills Overview (Competitor):**

General Mills, Inc. is a leading global producer of packaged consumer foods. The company operates in the US and in more than 100 countries outside the US. It is headquartered in Minneapolis, Minnesota and employs about 33,000 people. The company recorded revenues of $14,796.5 million during the financial year ended May 2010(FY2010), an increase of 0.7% over 2009. The revenues growth for the General Mills was driven by net price realization and favorable mix. The operating profit of the company was $2,606.1 million in FY2010, an increase of 12.1% over 2009.The net profit was $1,530.5 million in FY2010, an increase of 17.3% over 2009.

**General Mills Business Description(Competitor):**

General Mills is engaged in the manufacture and marketing of branded consumer foods sold through retail stores. The company is also a supplier of branded and unbranded food products to the foodservice and commercial baking industries. The company distributes its products primarily in the US and in more than 100 countries outside the US. The company operates about 66 facilities for the production of a wide variety of food products, of which 40 are located in the US, 12 in the Asia/Pacific region, three in Canada, six in Europe, four in Latin America and Mexico, and one in South Africa. The company generates revenues through three business divisions: US retail, bakeries and foodservice, and international.

**Methodology:**

In this case study we will refer to B&G’s financial statements for the years 2008 and 2009 so that we can calculate all needed ratios for both years and then conduct a trend analysis which is comparing and analyzing the ratios for both years. Then we will refer to General Mills financial statements and calculate the needed ratios for the year 2009 and compare these ratios to the ratios of B&G for the year 2009 and finally offer a recommendation for B&G. The financial statements and companies profiles were obtained from scholar and accurate web pages such as Compustat and Business and Company Resources Center.

**Ratio Analysis**

1. **Liquidity Ratios for B&G Company (2008):**

* Current Ratio = Current Assets / Current Liabilities = 163.84/49.47 = +3.311 times
* Quick Ratio = ( Current Assets – Inventory ) / Current Liabilities = (163.84-88.9)/49.47 =

= +1.515 times

* Cash Ratio = Cash/ Current Liabilities = 32.56 / 49.47 = +0.658 times

* NWC to Total Assets = NWC / Total Assets = (CA-CL)/ TA = (163.84 – 49.47) / 825.09

= +0.138 times

* Average Daily cost = Total Costs(excluding depreciation and interest) / 365 = 322.24/365

=+0.882$/day

Total Costs = Cost of Goods Sold + Total Expenses – depreciation – Interest Expense

= 343.77 + 52.90 - 15.55 - 58.07

= +322.24$

* Interval Measure = Current Assets / Average Daily Operating Costs = 163.84/0.882

= 185.759 days

**Liquidity Ratios for B&G Company (2009):**

Following the same computation but with the year 2009:

* Current Ratio = 165.92/ 48.95 = +3.389
* Quick Ratio = (165.92 - 86.13)/ 48.95 = +1.63
* Cash Ratio = 35.35 / 48.95 = +0.722
* NWC to Total Assets = NWC / TA = (CA-CL)/ TA = (165.92-48.95)/ 816.89

= +0.143

Total Costs= 344.04 + 53.97 - 14.70 - 49.63 = + 333.68$

Average Daily cost = Total Costs (excluding depreciation and interest) / 365

= 333.68 /365 = 0.9142$/day

* Interval Measure = Current Assets / Average Daily Operating Costs

= 165.92 / 0.9142 = 181.492 days

**Liquidity Ratios for General Mills Company (2009):**

* Current Ratio = 3,480/ 3,769.10 = + 1.0188
* Quick Ratio = (3,480 - 1,344) / 3,769.10 =+ 0.6622
* Cash Ratio = 678 / 3,769.10 =+ 0.1799
* NWC to Total Assets = NWC / TA = (CA-CL)/ TA = (3,480 - 3,769.10)/ 17,678.90

= - 0.0164

Total Costs= 8,417.80 + 3,235.10 - 2,686.50 - 374.50 = +8591.9$

Average Daily cost = Total Costs(excluding depreciation and interest) / 365

= 8591.9/365 = + 23.539$/day

* Interval Measure = Current Assets / Average Daily Operating Costs

= 3,480 / 23.539= 147.839 days

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|  | **Year 2008** | **Year 2009** |  |  |
| **Short-Term Solvency Ratios** | **B& G** | **B & G** | **General Mills** | **% Change(B&G)** |
| Current Ratio(times) | +3.311 | +3.389 | +1.0188 | +2.3558 |
| Quick Ratio(times) | +1.515 | +1.63 | +0.6622 | +7.5908 |
| Cash Ratio(times) | +0.658 | +0.722 | +0.1799 | +9.7264 |
| NWC to Total Assets(%) | +13.8 | +14.3 | -1.64 | +3.6232 |
| Interval Measure(days) | 185.759 | 181.492 | 147.839 | -2.297 |

**Analysis:**

**Current ratio** is a measure for the company to see if it has enough assets to cover its liabilities (short term solvency).The higher the ratio the more liquid the company is, but it is not a precise measure since it includes inventory in its calculation which is considered the least liquid among the current assets.

B&G had a solvency ratio of 3.311 in 2008, 3.389 in 2009. In both years the current ratio has a good sign since it is above 2 that means that B&G had sufficient assets to meet the short term liabilities. However the current ratio of General Mills is relatively smaller, General Mill’s solvency ratio was 1.0188 for year 2009. This might indicate that General Mills could face some liquidity problems in the coming future.

The current ratio of B&G shows that the company is in good financial position and that the company doesn’t have any problem paying its short term liabilities since it has sufficient short term assets.

By comparing the two companies, we notice that B&G is more liquid than General Mills since the former has enough assets to cover its current liabilities.

The **Quick (or Acid) Ratio:** It’s more accurate than the current ratio, because it measures a company’s financial strength excluding the calculation of the inventory. Quick Ratio shows how a company generates cash in short period of time to withdraw its current liabilities. A healthy company should have at least a ratio of 1, thus the higher the ratio, the greater the company's liquidity.

B&G has quick ratio of +1.515 and +1.63 for the years 2008, 2009 respectively. This shows that B&G is in a good financial position and it is fulfilling its short term debts given that its quick ratio is above 1.

General Mill has quick ratio of +0.6622 in 2009 which is considered a low value of quick ratio (value less than 1) this indicates that General Mills has difficulties meeting its current obligations. However, this low value may not reveal a serious problem because General Mills may have good long-term prospects; it may be able to borrow against those prospects to meet its current obligations.

To compare between both companies, B&G has a higher quick ratio than General Mills. This means that B&G cares for its inventory when it is caught in low cycles. B&G and General Mills would both be good only if General Mills is applying long-term payment deals with the creditors.

The **Cash Ratio** measures the cash (total cash and cash equivalents) available for the firm to meet its short term liabilities. It doesn’t include all current assets except the most liquid thus it is used to measure the company’s liquidity.

A cash ratio measures the company's liquidity and cover short-term .

B&G has a cash ratio of +0.658 and +0.722 for the years 2008 and 2009. This means that for the year 2008 B&G found some difficulties to easily provide for its current liabilities it’s dangerous for the company since it reveals very low liquidity. However for the year 2009 the cash ratio (+0.722) is relatively close to 1 that would make it easier for the company to meet its current liabilities. However the only concern for these ratios being below 1 , it can reflect a bad picture for new creditors.

According to General Mills, the cash ratio for the year 2009 is +0.1799. This reveals that the company is in a dangerous state where it can’t find the immediate cash to meet its short term liabilities. It shows very low liquidity.

It seems that B&G has higher cash ratio then General Mills. That means it is less likely affected by financial distress in the short term.

The **NWC to Total Assets** shows the liquidity level of the company. It results in the percentage of the remaining liquid assets compared to the company’s total assets. Thus the higher the ratio the better the state of the company and the lesser its risk. Creditors are also highly concerned in this ratio.

B&G has a NWC to TA +13.8%, +14.3% for the years 2009, 2010 respectively. This shows that the percentage of the remaining liquid assets to total assets increased by

3.62% from the year 2008 to 2009. However, these percentages are relatively low giving a bad sign for the company; they show that B&G would not survive much in case of any drop in sales.

According to General Mills, its shows a -1.64% that means a dangerous situation since it means that the company is carrying a great amount of debt (12,276.00). B&G has a higher ratio than General Mills which indicates that the former is less prone to sales drop and financial difficulties.

The **Interval Measure** indicates how long the company can operate until it needs another round of financing. It gives an average number of days that the company could use those [assets](http://www.investorwords.com/273/asset.html) to [meet](http://www.investorwords.com/10302/meet.html) all its [expenses](http://www.investorwords.com/1842/expense.html).

For the year 2008, B&G takes 185.759 days on average to use those current assets (163.84) to meet all its expenses. However for the year 2009 the interval measure is 181.492 that reveal a change in -2.297% which shows that B&G is operating lesser until its other financing round. This measure is sometimes favored to the other [ratios](http://www.investorwords.com/4041/ratio.html) since it gives an [approximation](http://www.investorwords.com/8845/approximation.html) of the [actual](http://www.investorwords.com/8761/actual.html) number of days, compared to other ratios, that give a value indicating the [ease](http://www.investorwords.com/9538/ease.html) of making the [payments](http://www.investorwords.com/3634/payment.html).

Comparing between B&G and General Mills for the year 2009 we can see that General Mills is occupying a lesser interval measure (147.839) than B&G that shows that General Mills could use its assets to meet all its expenses faster than B&G.

1. **Long-term solvency ratios for 2008 (B&G):**

* Total debt ratio= (total assets – total equity) / total assets= 825.09-144.65 / 825.09= +**0.82** times
* Debt-equity ratio= total debt / total equity= 680.44 / 144.65= +**4.704** times
* Equity multiplier= total assets / total equity= 825.09 / 144.65= +**5.704** times
* Long-term debt ratio= long-term debt/ (long-term debt + total equity)= 535.8 / 535.8+144.65= +**0.787** times
* Times interest earned ratio= EBIT / interest= 74.68 / 58.07= +**1.286** times
* Cash-coverage ratio= (EBIT + depreciation) / interest= (74.68 + 15.55) / 58.07= +**1.554** times

**Long-term solvency ratios for 2009 (B&G):**

* Total debt ratio= (816.89 – 225.61) / 816.89= +**0.724** times
* Debt-equity ratio= 591.29 / 225.61= +**2.62** times
* Equity multiplier= 816.89 / 225.61= +**3.62** times
* Long-term debt ratio= 439.54 / (439.54 + 225.61)= +**0.66** times
* Times interest earned ratio= 88.32 / 49.63= +**1.78** times
* Cash-coverage ratio= (88.32 + 14.7) / 49.63= +**2.076** times

**Long-term solvency ratios for 2009 (General mills):**

* Total debt ratio= (17,874.80 – 5,174.70) / 17,874.80= +**0.71** times
* Debt-equity ratio= 12,700.10 / 5,174.70= +**2.454** times
* Equity multiplier= 17874.80 / 5,174.70= +**3.454** times
* Long-term debt ratio= 5,754.80 / (5,754.80 + 5,174.70)= +**0.527** times
* Times interest earned ratio= 2,273.30 / 416.7= +**5.455** times

**Analysis**

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|  | **2008** | **2009** | **% change** |
| **Total debt ratio** | +0.82 | +0.724 | **-11.71 %** |

The total debt ratio indicates the company's ability to fund their operations and purchases of their assets by the means of long-term credit debt. Thus, in most cases, the less the company relies on liability to finance its assets, the better; as towering debt can result in weighty interest amounts that are ought to be paid periodically, not to mention the repayment of the principal that amounts to a heavy financial obligation on top of the firm. As a matter of fact, a debt ratio higher than one signifies that the company has more debt than assets, insinuating great risk. Nonetheless, this statement isn't a decisive factor in determining whether a company is at high risk of declaring bankruptcy and liquidating assets in order to make full debt payments or not; because big firms possess the capital to deal with large debt accounts, whereas small businesses can't.

While comparing the debt ratio of B&G foods for both years 2008 and 2009, we can notice a decrease of -11.71%, as it went from 0.82 in 2008 to 0.724 in 2009. These numbers reveal the fact that the company has more assets than debts, as both ratios are equal to less than one. This decrease of -11.71% emphasizes that the managerial corner is thoroughly financing the assets without really indebting the company or putting it at risk of having to liquidate its assets to make payment obligations. Moreover, the falling off of the ratios from one year to the next ones goes back on one hand to the cutback in total assets, whereas they dropped from 825.09 in 2008 to 816.89 in 2009. On the other hand, total equity has significantly increased; it went from 144.65 in 2008 to 225.61 in 2009.

Both B&G foods and General mills share nearly similar total debt ratios of 0.724 and 0.71 respectively. As a matter of numbers, General Mills have way more in total assets than B&G, 17,874.80 for GM and 816.89 for BG. This huge difference, present as well in relevance with total equity, 225.61 for B&G and 5,174.70 ­­­ for GM, signifies that General Mills is a way bigger company than B&G and can cope with larger amounts of debt than B&G can.

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|  | **2008** | **2009** | **% change** |
| **Debt-equity ratio** | +4.704 | +2.62 | **-44.30 %** |

The debt-equity ratio measures the company's ability to finance its assets in correspondence with a mixture of debt and equity.

The debt-equity ratio has decreased a massive -44.30% over the two year period; it shifted from 4.704 in 2008 to 2.62 in 2009. This indicates that the managers of B&G are investing in some highly lucrative projects that are increasing their earnings tremendously. It is conspicuous they are not excessively relying on neither debt nor equity to finance their assets. Furthermore, investment plans aside, they could also have increased the market value per share in order to increase earnings per share. Substantially, we can notice a contraction in total liabilities, whereas in 2008, they amounted to 680.44 and decreased to 591.29, meaning that the company has astounding positive cash flows, allowing it to pay back a consistent portion of its debts. In parallel, total shareholder's equity has drastically increased; it went from 144.65 in 2008 and reached 225.61 in 2009.

Both companies have approximately same debt-equity ratios of 2.62 for B&G and 2.454 for General Mills. B&G has 591.29 in total debt whereas GM has 12,700.10. As a matter of fact, since B&G has in total liabilities 591.29 and in total assets only 816.89, the company's will not be expected to run for a long time. The case is similar with General Mills, as the firm has 12,700.10 in total liabilities and only 17,874.80 in total assets. Nevertheless, GM can take on bigger investment opportunities since it has more cash and more assets than B&G.

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|  | **2008** | **2009** | **% change** |
| **Equity multiplier** | +5.704 | +3.62 | **-36.54 %** |

This measure of financial leverage, similar to all debt management ratios, the equity multiplier focuses on a company's debt management in order to finance its assets.

The equity multiplier of B&G had a noticeable decrease of -36.54% over the two years; it dropped to 3.62 in 2009, as it was 5.704 in 2008. This decay is evidence that capital structure is being well-managed. Total assets slightly decreased, they were 825.09 in 2008 and became 816.89 in 2009. Moreover, the company has witnessed an increase in total equity, whereas it shifted from 144.65 to 225.61. Although the equity multiplier has had a substantial fall in 2009, it remains relatively high.

Furthermore, while comparing B&G and General Mills, they almost have similar equity multipliers, 3.62 and 3.454 respectively. B&G has in total assets 816.89, whereas GM has 17,874.80. In addition, GM's total equity amounts to 5,174.70 while B&G has 225.61 in equity. These factual numbers indicate that General Mills has a higher net income, which makes it financially healthier than the other firm. However, GM, in relevance with its total assets as well as its current assets, it is foreseen to close its doors in the near future because it doesn't have a lot of current assets, which makes it less liquid, forcing the company to rely on debt in order to finance its assets as well as its prospective investments.

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|  | **2008** | **2009** | **% change** |
| **Long-term debt ratio** | +0.787 | +0.66 | **-16.14 %** |

The long-term debt ratio examines debt obligations such as loans that a company has to repay with a maturity date of more than one year, along with the periodical interest payments.

B&G has lessened its use of long-term debts, as it witnessed a decrease of -16.14%. Long-term debt has fallen to 439.54 in 2009 when it amounted to 535.8 in 2008. The ratio in 2008 was 0.787 and shrunk to 0.66 in 2009, insinuating that B&G relied less on taking long-term debts in order to finance its assets, avoiding having to make heavy interest payments on several specified periods by the lender. This is one of the factors that explain the decrease of B&G's total liabilities (680.44 in 2008 to 591.29 in 2009) as well as the increase in its cash and cash equivalents (from 32.56 in 2008 to 39.93 in 2009). Moreover, the fact that B&G has less dependence on long-term debts emphasizes more liquidity, as total current assets have increased from 163.84 in 2008 to 165.92 in 2009, which although doesn't seem to be of great significance, it points out better capital structure management.

While comparing long-term debt ratios between B&G foods and General Mills, it is obvious that GM borrows much more cash than B&G does. GM has long-term debts of 5,754.80 whereas B&G has 439.54 to cover. In addition, GM has higher periodical payment obligations that ought to be met since they are able to take on bigger investment opportunities that need large funding than B&G.

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|  | **2008** | **2009** | **% change** |
| **Times interest earned ratio** | +1.286 | +1.78 | **+ 38.41 %** |

The times interest earned ratio covers the availability of a firm's earnings in order to offset interest disbursements. The lower it is, the more vulnerable the firm gets facing amplifying interest rates.

The times interest earned ratio had a dramatic swell up over the period 2008-2009 of +38.41%, as it was 1.286 in 2008 and became 1.78 in 2009. This is due firstly to an increase of the EBIT of +13.64, as it amounted to 74.68 in 2008 and grew to 88.32 in 2009. Secondly, the interest expense has decreased by -8.44; it was 58.07 in 2008 and dropped to 49.63 in 2009. Simultaneously, this shows that B&G has improved its capital structure management by taking on some lucrative investment projects probably without agency problems and by further increasing the current value per share of the existing stock in order to increase its earnings. Moreover, the reason why the interest expense has decreased is because the firm was able to generate enough cash from its current assets and other sources as well in order to make interest payments, making to firm more liquid.

In comparison with General Mills (TIE = 5.455), B&G foods has a much lower times interest earned ratio equal to 1.78. In point of fact, GM has an EBIT of 2,273.30 which is much higher than B&G's (88.32) and an interest expense of 416.7 which is also bigger than B&G's (49.63). This signifies that General Mills is generating much more cash than B&G in order for it to meet interest disbursements. A higher EBIT insinuates that the competitor has more current assets and retained earnings and less liability than B&G.

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|  | **2008** | **2009** | **% change** |
| **Cash-coverage ratio** | +1.554 | +2.076 | **+ 33.60 %** |

The cash-coverage ratio is a refinement of the times interest earned ratio. It measures how much a firm has in its earnings in order to meet interest payments including depreciation.

The cash-coverage ratio has witnessed a tremendous increase of +33.60 over the two year period. It changed from 1.554 in 2208 to 2.076 in 2009. The reason behind this augmentation goes back the increase of the EBIT of +13.64, as it amounted to 74.68 in 2008 and grew to 88.32 in 2009, not to mention the interest expense has decreased by -8.44; it was 58.07 in 2008 and dropped to 49.63 in 2009. Furthermore, B&G had a decrease in depreciation of 0.85, as it was 15.55 in 2008 and became 14.7 in 2009. Since this ratio is only an alteration of the times interest earned ratio, therefore depreciation is taken into account. The reduction in depreciation in 2009 means that the company is implementing its current assets less than it use to in 2008, which explains the slim decrease in total assets (825.09 in 2008 and 816.89 in 2009).

In comparison with the competitor General Mills, B&G has a relatively low cash-coverage ratio of 2.076, whereas GM notes a ratio of 6.544. This is due to the fact that GM has an EBIT of 2,273.30 which is much higher than B&G's (88.32). Furthermore, General Mills has a higher depreciation than B&G, 453.6 and 14.7 respectively. However, this doesn't denote that GM makes use of some of its current assets more than B&G because the competitor has much more in assets as well as in equity than B&G and GM is a company that generates larger amounts of return.

1. **Asset Management or Turnover Measures: Ratios for 2008 (B&G)**

* Inventory turnover = Cost of goods sold/ Inventory= 343.77/ 88.90 = +3.87times
* Days’ Sales in Inventory= 365/ Inventory turnover= 365/ + 3.87 = 94.39 days
* Receivable turnover = Sales/ Account Receivable = 486.90/ 38.80 = +12.55times
* Days’ Sales in Receivables = 365/ Receivable turnover = 365/ +12.55 = 29.09 days
* Net Working in Capital turnover = Sales/ Net Working in Capital = 486.90/ 114.37 = +4.26times
* Note that Net Working in Capital = Current Asset- Current Liabilities =163.84 – 49.47 = $114.37
* Fixed Asset Turnover = Sales/ Net fixed Asset =486.90/ 809.54 = +0.60times
* Note that Net Fixed Asset = Total Asset- Depreciation = 825.09 – 15.55 = $809.54
* Total Asset Turnover = Sales/ Total Asset = 486.90/ 825.09 = +0.59times

**Asset Management or Turnover Measures: Ratios for 2009(B&G)**

* Inventory turnover = Cost of goods sold/ Inventory=344.04/ 86.13 = +3.99times
* Days’ Sales in Inventory= 365/ Inventory turnover=365/ + 3.99 = 91.38 days
* Receivable turnover = Sales/ Account Receivable =501.02/ 35.35 = +14.17times
* Days’ Sales in Receivables = 365/ Receivable turnover =365/ +14.17 = 25.75 days
* Net Working in Capital turnover = Sales/ Net Working in Capital = 501.02/ 116.97 = +4.28times
* Note that Net Working in Capital = Current Asset- Current Liabilities = 165.92 – 48.95 = $116.97
* Fixed Asset Turnover = Sales/ Net fixed Asset =501.02/ 802.19 = +0.62times
* Net Fixed Asset = Total Asset- Depreciation = 816.89 – 14.70 = $802.19
* Total Asset Turnover = Sales/ Total Asset = 501.02/ 816.89 = +0.61times

**Asset Management or Turnover Measures: Ratios for 2009 (General Mills)**

* Inventory turnover = Cost of goods sold/ Inventory= 9,004.20/ 1,346.80 = +6.69times
* Days’ Sales in Inventory= 365/ Inventory turnover= 365/ + 6.69 = 54.59days
* Receivable turnover = Sales/ Account Receivable =14,691.30/ 1,146.40 = +12.82times
* Days’ Sales in Receivables = 365/ Receivable turnover =365/ +12.82 = 28.48 days
* Net Working in Capital turnover = Sales/ Net Working in Capital = 14,691.30/ -71.1 = -206.63times
* Note that Net Working in Capital = Current Asset- Current Liabilities =3,534.90 – 3,606.00 =

$ -71.1

* Fixed Asset Turnover = Sales/ Net fixed Asset = 14,691.30/ 17,421.2 = +0.84times
* Note that Net Fixed Asset = Total Asset- Depreciation = 17,874.80 – 453.60 = $17, 421.2
* Total Asset Turnover = Sales/ Total Asset = 14,691.30/ 17,874.80 = +0.82times

**Analysis:**

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| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Inventory Turnover | **+ 3.87** | **+3.99** | **+3.10%** |

Inventory turnover measure how fast B&G sells and replaces its inventory. The higher the inventory turnover ratio, the stronger the sales.

B&G turnover ratio increases from +3.87 in year 2008 to +3.99 in 2009; an increase of 3.10%. This was mainly due to the decrease in inventory which results in a decrease of sales.

General Mills’ inventory turnover is +6.69 in 2009; this is twice the inventory turnover ratio as B&G in 2009 too. This implies that General Mills’ sales are twice as much as of B&G and so General Mills is operating better due to higher demand.

Therefore, comparing B&G and General Mills sales, it is obvious that General Mills’ sales is 30X more than B&G and its cost of goods sold is 26X more and so General Mills’ performance is much better.

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|  | 2008 | 2009 | %change |
| Days’ sales in Inventory | **94.39** | **91.38** | **-3.19%** |

This ratio measures the days inventory stays before being sold during one year period. Lower the number of days (shorter the period/ smaller the ratio) the better the ratio is. Meanwhile, higher the number of days (longer the ratio) indicates a bad sign as the inventory stays longer in the warehouses which cost even more. Longer the period means that the inventory requires additional cost (insurance, storage space, cleaning…)

B&G ratio shows a slight a decrease in the number of days for which inventories are sold from +94.39 in 2008 and 91.38 in 2009. This three days decrease is a positive sign yet an estimate of three months where inventories stay before getting sold is a very long period as they require additional cost.

However, looking at General Mills’ days sales in inventory is almost half B&G in 2009; 54.59 days. This ratio indicates a very positive sign as investors are very fast as the demand of the product is very high.

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|  | 2008 | 2009 | %change |
| Receivable turnover | **+12.55** | **+14.17** | **+12.91** |

This measure indicates how fast the company sells its productstherefore, its credit is recollected and the debts are collected. Higher the receivable turnover ratio, more liquid the company is and the faster it is operating.

B&G receivable turnover ratio increased from +12.55 to +14.17 in the years 2008 and 2009. This is a good sign as the company’s performance is growing stronger.

Meanwhile, receivable turnover ratio for the year 2009 of General Mills is +12.82. This is much lower ratio compared to 2009 receivable turnover of B&G. As a result, it is obvious that B&G is performing better through its receivables’ and is lending money.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Days’ sales in Receivables | **29.09** | **25.75** | **-11.48%** |

Days’ sales in Receivables measures the days for which the company collects its sales/ receivables’. The shorter the period, the better the performance of the company as it is able to repay its short term liabilities.

B&G ratios of 2008 and 2009 shows a decrease in the number of days, sales are recollected from 29.09 days to 25.75 days. This may indicate an increase in sales of B&G.

General Mills days’ sales in receivable is almost close to B&G (28.48 days) this is a much higher value; three days more for General Mills to collect its receivables than B&G in 2009.

Although the number of days is very close for both companies, but comparing 2009 values, shows that B&G is performing better, as it is collecting its receivables in a shorter period of time.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Net working in Capital turnover | **+4.26** | **+4.28** | **+0.47%** |

NWC turnover measures how much work we will get out of the working capital. Higher the ratio, better the company is doing in its sales.

The NWC turnover ratio of B&G shows a minor increase from +4.26 (2008) to +4.28 (2009) which indicates a slight increase in the sales.

On the other hand, General Mills NWC turnover ratio for 2009 was -206.63. This is a very bad indication of General Mills sales, as its sales are decreasing tremendously. This massive decrease could also be explained as the current liabilities of General Mills are much higher than their current assets.

Therefore comparing both companies, it is definite that B&G is performing better as its sales increased slightly while General Mills ratio decreased tremendously which should be of high priority concern to the company on the long run.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Net Working in Capital | **114.37** | **116.97** | **+2.27%** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Fixed Asset turnover | **+0.60** | **+0.62** | **+3.33%** |

Fixed asset turnover shows how efficiently the company uses its fixed assets to produce sales.

Fixed asset turnover of B&G showed a slight increase of +0.60 in 2008 till +0.62 in 2009 (a +3.33% change). This means B&G needs $1 in fixed asset to generate +0.60 in sales.

General Mills fixed asset turnover ratio is slightly higher than B&G in the year 2009; +0.84 which ,means that General Mills needs $! In fixed asset to generate +0.84. This value is much better compared to B&G of the same year. This seems that the company have enough fixed assets compared to B&G and does not need to invest more.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Net fixed Asset | **$809.09** | **$802.19** | **-0.85%** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Total Asset Turnover | **+0.59** | **+0.61** | **+3.39%** |

This ratio indicates how much the company produces in sales for each $1 spent in assets. This is one of the important ratios to determine whether the company is working effectively with its assets to produce revenues.

B&G ratios for the years 2008 and 2009 shows a slight increase in the total asset turnover ratio from +0.59 to +0.61 which indicate that the investments made by B&G in fixed assets are much lower than these investment in current assets.

General Mills’ total asset turnover of 2009 was close to that of B&G; +0.82 yet bigger which indicate a better asset management than B&G.

1. **Profitability Measures:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Profitability measures** | **B&G 2008** | **B&G 2009** | **General Mills 2009** |
| **Profit margin (%)** | - 0.020 | - 0.035 | - 0.089 |
| **ROA (%)** | - 0.012 | - 0.021 | - 0.073 |
| **ROE (%)** | - 0.067 | - 0.077 | - 0.252 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **B&G 2008** | **B&G 2009** | **% change** |
| **Profit Margin (%)** | - 0.020 | - 0.035 | 0.75 |
| **ROA (%)** | - 0.012 | - 0.021 | 0.75 |
| **ROE (%)** | - 0.067 | - 0.077 | 0.15 |

**1. Profit Margin= Net Income/ Sales**

Profit Margin 2008(B&G) = -9.73/486.90 = -0.020%

Profit Margin 2009(B&G) = -17.44/501.02 = -0.035%

Profit Margin 2009(General Mills) = -1304.40/14691.30 = -0.089%

**2. Return on Assets (ROA) =** **Net Income / Total Assets**

ROA 2008(B&G) = -9.73/825.09 = -0.012%

ROA 2009(B&G) = -17.44/816.89 = -0.021%

ROA 2009(General Mills) = -1304.40/17874.80 = -0.073

**3. Return on Equity (ROE) =** **Net Income / Total Equity**

ROE 2008(B&G) = -9.73/144.65 = -0.067%

ROE 2009(B&G) = -17.44/225.61 = -0.077%

ROE 2009(General Mills) = -1304.40/5174.70 = -0.2520%

**Analysis:**

**Profit Margin:**

The Profit Margin indicates how much a company generates profits from sales. In other words, it tells us how much a company will generate for every dollar invested in sales. The higher this ratio the more the company is profitable. Comparing the PM 2008(B&G) and PM 2009(B&G) we can see that both are negative and it decreases from - **0.020** in 2008 to **- 0.035** in 2009. This is a bad indicator for the company because it will not generate profit from sales. The reason for this decrease is that net income decreased dramatically from **- 9.73** in 2008 to **- 17.44** in 2009 although sales increased from **+486.90** in 2008 to **+501.02** in 2009. Comparing PM 2009(B&G) and PM 2009(General Mills) we can see that it is not much better for general Mills because it also has a negative PM and it is much more trouble for General Mills because it has a lower PM (**-0.089**) than B&G (**-0.020**) and a lower NI (**-1304.40**) than B&G (**-9.73**) although it has higher sales.

**Return On Assets:**

Return On Assets indicates how much a company is generating profits from TA (Total Assets). In other words, it tells us how much a company will generate for every dollar invested in TA. As this ratio increases it is an indicator of how well assets are being handled. Comparing the ROA 2008(B&G) and ROA 2009(B&G) we can see that both are negative and it decreases from - **0.012** in 2008 to **- 0.021** in 2009. This is a bad indicator for the company because it will not generate profit from TA and it indicates that assets are not being handled efficiently. The reason for this decrease is that net income decreased dramatically from **- 9.73** in 2008 to **- 17.44** in 2009. Comparing ROA 2009(B&G) and ROA2009 (General Mills) we can see that it is not much better for general Mills because it also has a negative ROA and it is much more trouble for General Mills because it has a lower ROA (**-0.073**) than B&G (**-0.012**) and a lower NI(**-1304.40**) than B&G (**-9.73**).

**Return on Equity:**

Return on Equity indicates how much a company will generate profits from investment in equity. In other words, it shows us how much the company will generate from every dollar invested in equity. Comparing the ROE 2008(B&G) and ROE 2009(B&G) we can see that both are negative and it decreases from - **0.067** in 2008 to **- 0.077** in 2009. This is a bad indicator for the company because it will not generate profit from TE and it indicates that the performance of the company is not well and this could be due to distribution of dividends. The reason for this decrease is that net income decreased dramatically from **- 9.73** in 2008 to **- 17.44** in 2009. Comparing ROE 2009(B&G) and ROE2009 (General Mills) we can see that it is not much better for general Mills because it also has a negative ROE and it is much more trouble for General Mills because it has a lower ROE (**-0.2520**) than B&G (**-0.077**) and a lower NI (**-1304.40**) than B&G (**-9.73**).

1. **Market value Ratio: Ratios for 2008 (B&G)**

* Price- earning ratio = Price per share/ Earning per share =+20.00 times
* Price- Sale Ratio = Price per share/ sales per share = +0.41
* Market to book value = Market value per share/ Book value per share = +1.35times

**Market value Ratio: Ratios for 2009 (B&G)**

* Price- earning ratio = Price per share/ Earning per share = +20.86times
* Price- Sale Ratio = Price per share/ sales per share =+0.72
* Market to book value = Market value per share/ Book value per share = +1.93times

**Market value Ratio: Ratios for 2009 (General Mills)**

* Price- earning ratio = Price per share/ Earning per share = +13.02times
* Price- Sale Ratio = Price per share/ sales per share =+1.16
* Market to book value = Market value per share/ Book value per share = +3.24 times\

**Analysis:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Price- earnings ratio | **+20.00** | **+20.86** | **+4.3%** |

This ratio measures how much investor is willing to pay per dollar of the current earning. In other words, it shows the ability of the company in selling from its stocks with respect to earnings. A higher price – earnings ratio value will create an interest among investors to invest more in the company.

B&G price-earnings ratio slightly increased from+20.00 to +20.86 in the years 2008 and 2009. This slight increase is a good sign as price per share increased.

General Mills price- earnings ratio is +13.02for the year 2009. This is a lower value than that of B&G in the same year. This might be a concern for General Mills as the earning per share is decreasing so lower earnings are created from the same sales.

Comparing both companies, B&G has better price- earnings ratio since its price per shares increasing yet General Mills’ ratio is decreasing.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Price- sales Ratio | **+0.41** | **+0.72** | **+75.61%** |

Price-sale ratio values the stock relatively with its past performance and measures the revenues generated from this stock. Higher the ratio, more revenues are generated.

B&G price-sale ratio increased from +0.41 to +0.72 in the years 2008 and 2009 which is a good indication of revenues generated.

Meanwhile, General Mills price- sale ratio was higher than B&G in 2009; +1.16 which means more revenues were generated than B&G although both have positive sign of revenues.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2008 | 2009 | %change |
| Market to book value | **+1.35** | **+1.93** | **+42.96** |

Market to book value measure how much the company worth’s today when comparing the amount of capital invested in the company. A higher value ratio the healthier the company is.

B&G ratio shows an increase of +42.96% through the years 2008 and 2009 which indicates that the company worth +1.93 times when comparing to the amounts of capital invested.

However, General Mills is much healthier and worth much more when comparing the market to book value of +1.93 and +3.24 for General Mills in 2009. Although both are standing at good point but General Mills worth more today than B&G.

**Recommendations**

There are several ways that B&G would accomplish in order to improve its ability to pay the bills as they come due. First of all, B&G would have to watch after its accounts receivables effectively to ensure that it is properly invoicing its clients and receiving punctual payments. Second, B&G should bargain for longer payment deals with its vendors to keep its cash for a longer time. The company also has to watch out for any money withdrawal for non-business purposes like owner’s withdrawals. This would lead to needless cash drain on the business. Moreover, evaluating the profitability on the products like hot cereals, jams, fruit spreads and salad dressings and assess where there prices can be increased regularly to retain profitability. In addition to the adjustment of prices when there is any increase in costs and market changes.

In addition, according to B&G's financial statements, it is conspicuous that it is a small firm that we are dealing with. In order for the company to keep running for a significant period of time, it should thoroughly improve the management of its capital structure.

Indeed, B&G doesn't have enough capital for it to increase cash inflows. Hence, the company ought to start taking bigger investment risks even though while somewhat relying on speculation in order to try and increase its net income. However, B&G should consider amplifying their short-term investments to result in quick cash returns and to avoid heavy interest payments that are ought to be met periodically.

Furthermore, B&G could increase the current value per share of its existing stock in order to raise its earnings per share

Although B&G sales should increase in order to generate greater revenues, but days needed to sell the inventory should decrease, since longer the number of days required to sell the inventories, more cost will be paid by B&G to ensure that products are in good health.

Moreover, based on the analysis of the profitability ratios B&G can do the following:

Since it has a net loss hence it should improve its net income and in order to improve it. In addition,

B&G should increase sales hence more profits will be generated and it should also minimize

the operating expenses and COGS and as a result NI will improve. In order to improve ROA it

NI should be improved and it should handle assets more efficiently (for example it might

fire some employees and buy a machine that does all the Work). To improve ROE, B&G

NI and then as a solution it can increase the use of debt but to an extent that the firm’s financial position is not affected. The main problem at B&G is that they do not have any loss so the primary thing they should do is to improve the NI and then improve other things

B&G had a better price- earnings ratio and so Price per share increased which generates greater revenues. Yet General Mills seems much healthier in 2009 as it worth more when viewing market to book value. Therefore, B&G should increase its market value by increasing the cost of goods sold and price per share.

**References:**

* **B&G foods complete financial statement can be retrieved from:**<http://wrds-sol1.wharton.upenn.edu/output/grid/123202667.htm>
* **General Mills complete financial statement can be retrieved from:**

<http://wrds-sol1.wharton.upenn.edu/output/grid/123203832.htm>