ABC COMPANY
INCOME STATEMENTS
For The Periods ended 12/31
(000,000)

	20X1	**20X2**	**20X3**
Sales	$1,578	$2,106	$3,265
COGS	631	906	1,502
Gross Margin	$ 947	$1,200	$1,763
Expenses			
Marketing	$316	$495	$882
R & D	158	211	327
Admin.	126	179	294
Total Expenses	$ 600	$ 885	$1,503
EBIT	$347	$315	$260
Interest	63	95	143
EBT	$284	$220	$117
Tax	97	75	40
EAT	$187	$145	$ 77

BALANCE SHEETS
12/31
($000,000)

	20X1	**20X2**	**20X3**
ASSETS			
Cash	$ 30	$ 40	$ 62
Accounts Receivable	175	351	590
Inventory	90	151	300
Current Assets	$ 295	$ 542	$ 952
Fixed Assets			
Gross	$1,565	$2,373	$2,718
Accum. Depreciation	(610)	(860)	(1,135)
Net	$ 955	$1,513	$1,583
Total Assets	$1,250	$2,055	$2,535
LIABILITIES			
Accounts Payable	$56	$81	$134
Accruals	15	20	30
Current Liabilities	$71	$101	$164
Capital			
Long-Term Debt	$630	$1,260	$1,600
Equity	549	694	771
Total Liability & Equity	$1,250	$2,055	$2,535

The following additional information is provided with the financial statements. Depreciation for 20X1, 20X2, and 20X3 was $200, $250, and $275 million respectively. No stock was sold or repurchased, and like many fast growing companies, ABC paid no dividends. Assume the tax rate is a flat 34% and the firm pays 10% interest on its debt.

a. Construct Common Size Income Statements for 20X1, 20X2, and 20X3. Analyze the trend in each line. What appears to be happening? (Hints: Think in terms of both dollars and percentages. As the company grows, the absolute dollars of cost and expense spending go up. What does it mean if the percentage of revenue represented by the expenditure increases as well? How much of an increase in spending do you think a department could manage efficiently? Could pricing of ABC's products have any effect?)

b. Calculate the indicated ratios for all three years. Analyze trends in each ratio and compare each with the industry average. What can you infer from this information? Make specific statements about liquidity, asset management, especially receivables and inventories, debt management, and profitability. Do not simply say that ratios are higher or lower than the average or that they are going up or down. Think about what might be going on in the company and propose *reasons* why the ratios are acting as they are. Use only ending balance sheet figures to calculate your ratios.

	Industry Average	20X1	20X2	20X3
Current Ratio	4.5			
Quick Ratio	3.2			
ACP	42 days			
Inventory Turnover	7.5			
Fixed Asset Turnover	1.6			
Total Asset Turnover	1.2			
Debt Ratio	53%			
Debt:Equity	1:1			
TIE	4.5			
ROS	9.0%			
ROA	10.8%			
ROE	22.8%			
Equity Multiplier	2.1			

and extended Dupont

c. Construct both Du Pont Equations for ABC and the industry. What, if anything, do they tell us?

d. One hundred million shares of stock have been outstanding for the entire period. The price of ABC stock in 20X1, 20X2, and 20X3 was $39.27, $26.10, and $11.55 respectively. Calculate the firm's Earnings Per Share (EPS), and its Price Earnings Ratio (P/E). What's happening to the P/E? To what things are investors likely to be reacting? How would a slow down in personal computer sales affect your reasoning?

e. Would you recommend ABC stock as an investment? Why might it be a very bad investment in the near future? Why might it be a very good one?