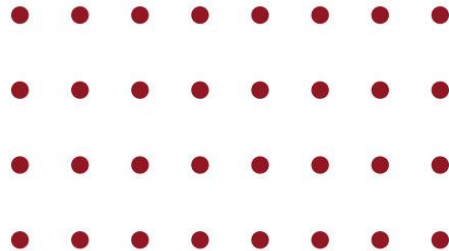


Class 4

UG3F14 Corporate Finance



Class 4 Topics and Content

- *Case Study: Financial Statements Analysis for Decision Making:*
 - Practical Exercise: Ratio Analysis for Business Decision in a Corporation

Class 4

- Case Study: *Financial Statements Analysis for Decision Making:*

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - ✓ Fundamental Analysis:
 - In business and economics, fundamentals represent the primary characteristics and business data necessary to determine the stability and health of an asset, and provide a method to set the financial value of a company, or security
 - Investors and *financial analysts* are interested in evaluating the fundamentals of a company to compare its economic position relative to its industry peers, to the broader market, or to itself over time
 - Fundamental analysis explores the company's financial statements to extract its profit and growth potential, relative riskiness, and to ultimately decide if its shares are over, under valued in the market, or it is a good investment

Class 4

- Case Study: *Financial Statements Analysis for Decision Making:*

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis:
 - ✓ Investors tend to invest in businesses with expectations of stable and/or growing income streams over those where income may be more variable or where the company's future direction is uncertain
 - ✓ How to evaluate company growth potential - factors that influence market expectations
 - Growth anticipation (improve profitability) - primary driver of a company's valuation is its ability to grow earnings and pay dividends - entering new markets, entering into partnerships and joint ventures, winning new contracts or customers, developing and launching new or improved products, improving marketing and sales offerings and more, raising prices, cost controls or efficiency in administrative, sales and marketing, interest expenses
 - Risk awareness: operating, political, currency, legal, or insolvency risks
 - Market values: market ratios

Class 4

- Case Study: *Financial Statements Analysis for Decision Making:*

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis:
 - ✓ Industry:
 - An industry – or sector – is the whole of all economic activities by companies, people, and organizations involved in the production of goods and services for a particular field
 - Industries are usually categorized by the goods and services they produce like technology, construction, healthcare or retail

Class 4

- Case Study: **Financial Statements Analysis for Decision Making:**

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis: *AVIS BUDGET GROUP*

Avis Budget Group, Inc. is USA business and a leading global provider of mobility solutions, both through its Avis and Budget brands, which have more than 10,000 rental locations in approximately 180 countries around the world, and through its Zipcar brand, which is the world's leading car sharing network with more than one million members. Avis Budget Group operates most of its car rental offices in North America, Europe and Australasia directly, and operates primarily through licensees in other parts of the world. The business is headquartered in N.J., USA. Avis Budget Group, Inc. is the American parent company of global brands like Avis Car Rental, Budget Car Rental, Budget Truck Rental, and Zipcar.

Revenue: 9.2 billion USD (2019) and 5.4 billion USD (2020)

Number of employees: 30,000

The business trades in NASDAQ under the ticker: CAR @79.06 USD per share of common stock @ Aug 4, 2021 (16.00h)

avis budget group

Source: [avisbudgetgroup.com](https://www.avisbudgetgroup.com)

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis: Case - The Global Tourism Industry

The 10 Global Biggest Industries by Revenue

Industry

1.Global Life & Health Insurance Carriers	\$4,894,8B
2.Global Pension Funds	\$4,221,0B
3.Global Car & Automobile Sales	\$3,978,6B
4.Global Commercial Real Estate	\$3,963,9B
5.Global Oil & Gas Exploration & Production	\$3,325,4B
6.Global Car & Automobile Manufacturing	\$2,976,5B
7.Global Direct General Insurance Carriers	\$2,580,7B
8.Global Auto Parts & Accessories Manufacturing	\$2,500,4B
9.Global Commercial Banks	\$2,341,0B
10.Global Tourism	\$1,703,3B

Global Tourism Industry is defined as international visitors spending across national borders travel primarily for business, convention or conference travel, government business, and the more familiar tourism for leisure, vacation or to visit friends and relatives

<https://www.ibisworld.com/global/market-research-reports/global-tourism-industry/>

Industry Products and Services

1. Traveler accommodations
2. Air transportation
3. Travel arrangement and reservations
4. Food and beverage establishments
- 5. Other transport, including car rental**
6. Gasoline
7. Recreation and entertainment
8. Other retail activities

Industry Activities

1. Traveler accommodation services
2. Airline operation
3. Providing hospitality services to international tourists
- 4. Automotive rental**
5. Travel agent and tour arrangement services

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis - Global Tourism Industry Case: AVIS BUDGET GROUP

AVIS BUDGET GROUP Consolidated Financial Statements*

As Dec 31 in Thousands

	2020	Industry Average
Total Revenue	1,500,000 €	3,750,000 €
Cost of sales	275,000 €	450,000 €
Gross Profit	1,225,000 €	3,300,000 €
Selling and Adm Expenses	106,510 €	108,000 €
Operating Income	1,118,490 €	3,192,000 €
Interest Expense	23,000 €	2,267 €
Profit before income taxes	1,095,490 €	3,189,733 €
Income Taxes	109,549 €	318,973 €
Net Income	985,941 €	2,870,760 €

	2020	Industry Average
Current assets	2,826,950 €	6,115,077 €
Cash & cash Equivalents	1,568,450 €	988,000 €
Short-term investments	145,000 €	3,125,012 €
Accounts receivables	345,000 €	750,000 €
Inventory	765,000 €	986,580 €
Other current assets	3,500 €	265,485 €
Non-current assets	16,252,785 €	12,964,658 €
Prop Plant and Equip	15,600,785 €	12,176,000 €
Other assets	652,000 €	788,658 €
Total Assets	19,079,735 €	19,079,735 €
Total Liabilities	12,125,457 €	13,149,285 €
Current liabilities	10,136,957 €	10,986,285 €
Accounts payable	8,245,000 €	9,016,271 €
Short-term liabilities	1,890,457 €	1,965,014 €
Other current liabilities	1,500 €	5,000 €
Non-current liabilities	1,988,500 €	2,163,000 €
Long-term debt	1,976,000 €	2,154,500 €
Other long-term liabilities	12,500 €	8,500 €
Stockholder's Equity	6,954,278 €	5,930,450 €
Retained Earnings	4,458,980 €	5,785,000 €
Additional paid in capital	2,495,298 €	135,650 €
Common Stock par value 1 euro (MM)	3,500 €	9,800 €
Total Liabilities and Equity	19,079,735 €	19,079,735 €
Market price	€ 14.00	€ 21.00

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis - Global Tourism Industry Case: AVIS BUDGET GROUP

Balance Sheet comparison to the industry performance for 2020:

- The year 2020 had economic uncertainties, and cash & equivalents was crucial for sustainability
- Industry Competitors: Hertz, National Car Rental, Europcar, or Sixt
 - The industry has higher cash provision than the business by having 31% (vs 28%) of their total assets allocated in their cash account
 - The industry has higher liquidity, and 38% of the business current assets relies in inventory
 - Short-term investments (marketable securities) portfolio is lower than the industry
 - This line, along with the cash balance, and the challenges in 2020 might give extra stress in their liquidity capacity. It would be interesting to further analyze the business cash management, and long-term debt policy and strategies

AVIS BUDGET GROUP		
Consolidated Balance Sheet		
	2020	Industry Average
Current assets	3,138,798 €	3,345,000 €
Cash & cash Equivalents	1,025,000 €	1,400,000 €
Short-term investments	145,000 €	300,000 €
Accounts receivables	600,000 €	550,000 €
Inventory	1,193,798 €	830,000 €
Other current assets	175,000 €	265,000 €
Non-current assets	1,075,000 €	1,185,000 €
Prop Plant and Equip	600,000 €	650,000 €
Other assets	475,000 €	535,000 €
Total Assets	4,213,798 €	4,530,000 €
Total Liabilities	1,368,500 €	1,320,200 €
Current liabilities	756,000 €	812,200 €
Accounts payable	500,000 €	350,000 €
Short-term liabilities	250,000 €	457,200 €
Other current liabilities	6,000 €	5,000 €
Non-current liabilities	612,500 €	508,000 €
Long-term debt	600,000 €	500,000 €
Other long-term liabilities	12,500 €	8,000 €
Stockholder's Equity	2,845,298 €	3,209,800 €
Retained Earnings	350,000 €	3,000,000 €
Additional paid in capital	2,495,298 €	200,000 €
Common Stock par value 1 euro (MM)	3,500 €	9,800 €
Total Liabilities and Equity	4,213,798 €	4,530,000 €
Market price	€ 14.00	€ 21.00

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis - Global Tourism Industry Case: AVIS BUDGET GROUP

AVIS BUDGET GROUP Consolidated Balance Sheet

Balance Sheet comparison to the industry performance for 2020:

- Liabilities are slightly higher than the industry due to mostly account payables; however the business is better positioned in their short-term debt obligations than the industry by having only 55% of the industry short-term debt
- Equity, or the worth of the owners of *Avis Budget Group*, is substantially lower than the competitors (retained earnings are affected by net income and dividends paid in a period) therefore, it looks like investors have better options for returns of their money from other competitors

	2020	Industry Average
Current assets	3,138,798 €	3,345,000 €
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Class 4

- Case Study: Financial Statements Analysis for Decision Making:

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis - Global Tourism Industry Case: AVIS BUDGET GROUP

Balance Sheet comparison to the industry performance for 2020:

Industry - Competitors: Hertz, National Car Rental, Europcar, or Sixt

- Similar businesses generates more than double in revenue sales
- The interest expense for servicing the debt for AVIS BUDGET GROUP is less efficient their competitors requiring 10 times more revenues that their peers
- From an investor's perspective, there is clear picture that similar businesses are handling more efficient their revenues strategies and expenses resulting in a substantially higher net income for investors

AVIS BUDGET GROUP Consolidated Financial Statements*

As Dec 31 in Thousands

	2020	Industry Average
Total Revenue	1,500,000 €	3,750,000 €
Cost of sales	275,000 €	450,000 €
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- Case Study: Financial Statements Analysis for Decision Making:

- Practical Exercise: Fundamental and Financial Analysis for Business Decisions of a Corporation
 - Fundamental and Financial Analysis - Global Tourism Industry Case: *AVIS BUDGET GROUP*

Ratio analysis comparison to the industry performance for 2020:

Industry - Competitors: Hertz, National Car Rental, Europcar, or Sixt

Liquidity Ratios	Business	Industry
Current Ratio	4.15	4.12
Ave Collection Period	146.00	53.53

- In 2020 current ratio was very similar for the business and the industry: the business has €4,15 of current assets to cover €1 of current liability, and is better than the industry by €0,03. The number is consider inefficient - high for all the industry, but is consistent with the challenges in the cash requirements all the businesses faced in 2020 due to the pandemic
- Competitors collected their credit sales from customers an average of 92 days faster than AVIS BUDGET GROUP (53.53 vs 146 days)
- From the liquidity perspective it looks like the competition is better positioned in short term solvency than the business, basically for collecting their debts faster than the business

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- Case Study: Financial Statements Analysis for Decision Making:

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Ratio analysis comparison to the industry performance for 2020:

Industry - Competitors: Hertz, National Car Rental, Europcar, or Sixt

Activity Ratios	Business	Industry
Total Asset Turnover	0.36	0.83
Inventory Turnover	0.13	0.54

- Based in the total asset turnover, the industry is more efficient in using their assets and turning them to revenues by more than the double (0.83x vs 0.36x)
- In 2020, for every euro in total assets AVIS BUDGET GROUP generated €0.36 in sales, and their competitors €0.83 making similar business more efficient
- In 2020, the industry inventory was sold or used 0.54 times vs 0.13 the business. Competitors sold their goods faster, and the business low turnover rate could indicate weak sales and excess inventories

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

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Ratio analysis comparison to the industry performance for 2020:

Industry - Competitors: Hertz, National Car Rental, Europcar, or Sixt

Leverage Ratios	Business	Industry
Debt Ratio	32.48%	29.14%
Debt to Equity	48.10%	41.13%

- In 2020, the debt ratio for the business was 32.48% meaning that for the firm has €3245 of debt
- Competitors have slightly better long-term solvency than the business 29.14% vs 32.48%
- The business uses more creditor financing (bank loans) than investor financing than the industry 48.10% vs 41.13%
- In general, the business has more leverage than their peers in the industry

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

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Ratio analysis comparison to the industry performance for 2020:

Industry - Competitors: Hertz, National Car Rental, Europcar, or Sixt

Profitability Ratios	Business	Industry
Gross Profit Margin	81.67%	88.00%
Operating Profit Margin	74.57%	85.12%
Net profit Margin	65.73%	76.55%
ROA	23.40%	63.37%
ROE	34.65%	89.44%

- Competitors have higher gross profit margin meaning that they have more funds are available to reinvest, save and/or pay expenses (81.67% vs 88%)
- Similar companies have a better operating efficiency (EBIT) 74.57% vs 85.12% meaning extra funds for the investors
- The industry has better control of expenses than the business (76.55% vs 65.73%) meaning more profitable after considering of all revenues and expenses, including interest, and taxes
- The business underperformed by returning less profit to shareholders per asset in the balance sheet, and investors' equity
- In general, competitors are more efficient and provided better returns than AVIS BUDGET GROUP at all profit margin stages, and investments meaning they have more profitable options with similar businesses

Class 4

- Case Study: Financial Statements Analysis for Decision Making:

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 - Fundamental and Financial Analysis - Global Tourism Industry Case: *AVIS BUDGET GROUP*

Ratio analysis comparison to the industry performance for 2020:

Industry - Competitors: Hertz, National Car Rental, Europcar, or Sixt

Market Ratio	Business	Industry
EPS	0.28	0.29
P/E Ratio	49.70	71.69
Dividend Yield	2.01%	1.39%

- In 2020, the business and the industry had very similar EPS results
- P/E Ratio is significantly higher in the industry meaning that investors are willing to pay a higher share price because of growth expectations in the future
- The business is providing their investors higher dividends than the industry (2.01 euros per share vs 1.39 euros per share)

Some conclusions for AVIS BUDGET GROUP

- Based in the ratio analysis, is the business in good condition compared to their peers?
 - The industry is more efficient in their operations providing better profit margins at all levels
 - The business ROA and ROE is significantly lower than the industry results
 - The business has more leverage than the industry, compromising their credit capacity in their future needs, and it has a lower capacity to meet their short term needs by having a lower current ratio, and higher turnovers
- From the investor's perspective, would they buy shares of the company?
 - If the investor is sensitive only to the dividend income, investing in AVIS BUDGET GROUP will be a more suitable What other source of information will assist in the analysis
 - The creditor however would be extra cautious when rendering funds to the business due to their debt levels
 - Management of the business should find efficiencies in their operations to improve their P&L results for the future

