

PR Strategic Finance
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Wintersemester 2015/ 2016
08.01.2016

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*Solution: Alternative 5.
Liquidate*

Multivariate model of Altman: $ZI = 0,717X1 + 0,847X2 + 3,107X3 + 0,420X4 + 0,998X5$
- nonbankrupt: $Z > 2,90$
- bankrupt: $Z < 1,20$
- gray area: $1,20 < Z < 2,90$

Liquidation forms:
1. informal (reorganization, assignment)
2. formal

THANK YOU FOR YOUR ATTENTION!



Polaris Industries Inc

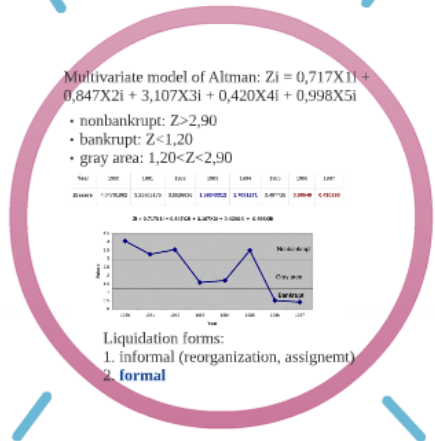
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Alternatives 3 & 4

Alternative 3: ...
 Alternative 4: ...

Figure 11: Cash and debt profiles

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cash
Debt

Industry Outlook

Industry Outlook: ...

Financial Analysis

Financial Analysis: ...

Financial and
 Management Issues

Financial and Management Issues: ...

Alternatives 1 & 2

Alternatives 1 & 2: ...

Polaris Industries Inc

Financial Analysis

- annual sales were 2/3 of what they had been only 2 years earlier
- negative equity position of \$84 million
- 1980s: preference for toy industry, low unemployment and interest rate: interest rate ↓ => debt becomes cheaper

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Industry Analysis

- factors of success: economy, demography, seasonality, successful product introduction on a regular basis

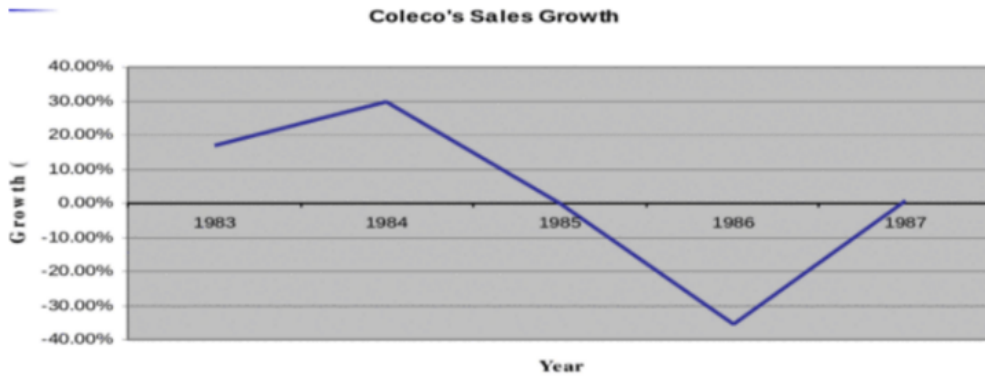
Sales growth of selected toy companies					
	1983	1984	1985	1986	1987
Coleco	16,87 %	29,91 %	0,14 %	- 35,48 %	0,76 %
Hasbro	63,45	218,99	71,54	9,02	0,03
Kenner Parker	NA	20,17	1,51	21,23	NA
Mattel	52,80	39,07	19,30	0,74	3,65
Tonka	8,26	58,31	75,83	20,05	30,40

Company analysis

- "high-wire act of the toy industry
- 2 notable recoveries
- skeptical for 3rd recovery

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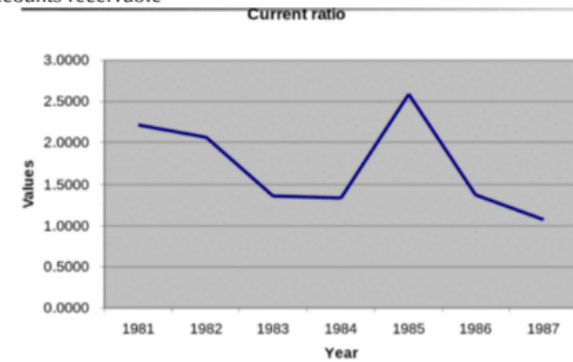
- decreasing sales since 1984
- started increasing again in 1986 but could not make profit



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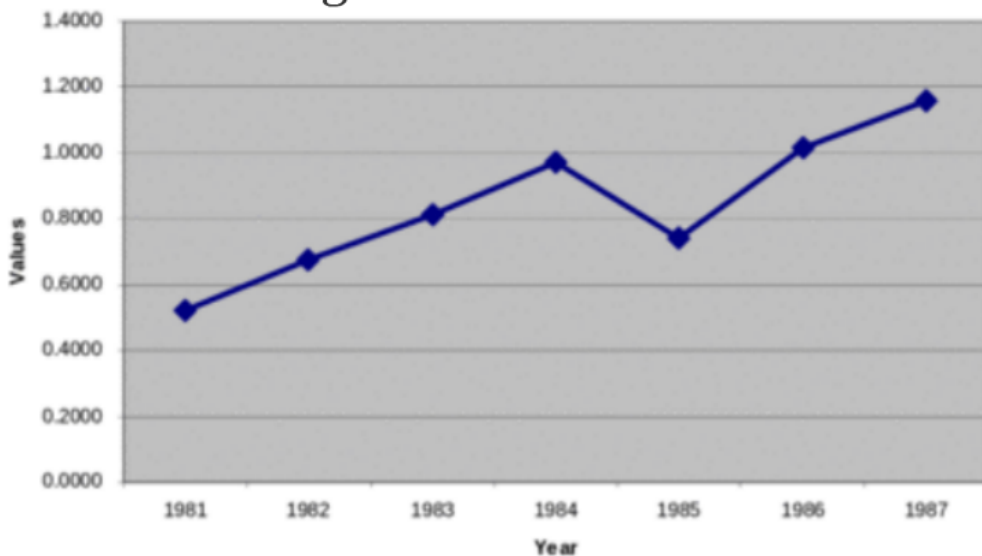
	1981	1982	1983	1984	1985	1986	1987
Current ratio	2.2124	2.0684	1.3601	1.3331	2.5835	1.3676	1.0752
Debt ratio	0.5224	0.6759	0.8127	0.9730	0.7425	1.0130	1.1574
Long term debt to total Capitalization	0.7049	0.8256	0.8373	0.8933	0.9007	0.9489	0.9464
Time interest earned ratio	4.0121	9.8026	(0.2681)	(1.2756)	4.5110	(1.7516)	(0.7689)
Net profit margin	0.0433	0.0880	(0.0125)	(0.1030)	0.1068	(0.2222)	(0.2088)
Return on equity	0.1780	0.6408	(0.0816)	(1.5976)	1.4694	(2.3498)	2.2919
Return on asset	0.0863	0.2331	(0.0195)	(0.1842)	0.2108	(0.2250)	(0.1870)

- satisfactory current ratio, but it is fluctuating and the major portion of current assets are accounts receivable



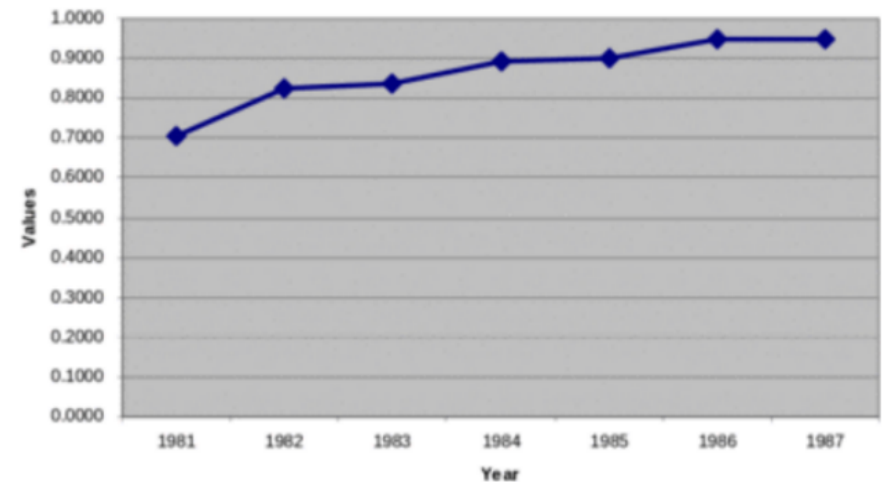
- high degree of dependency on borrowing

Debt ratio

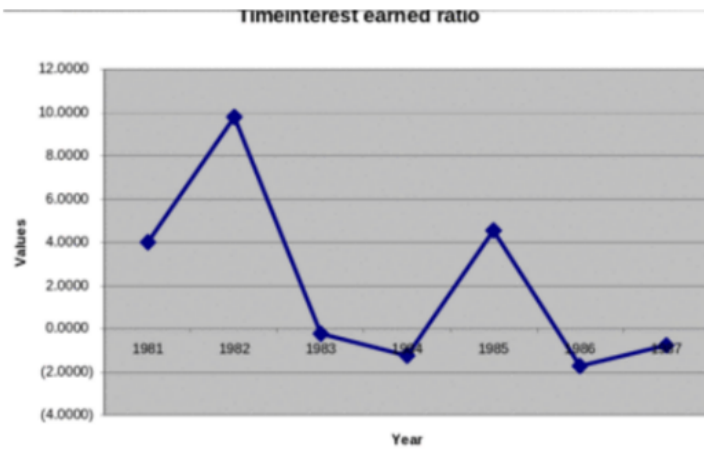


- on the firm's capital: relative importance of long term debt is increasing

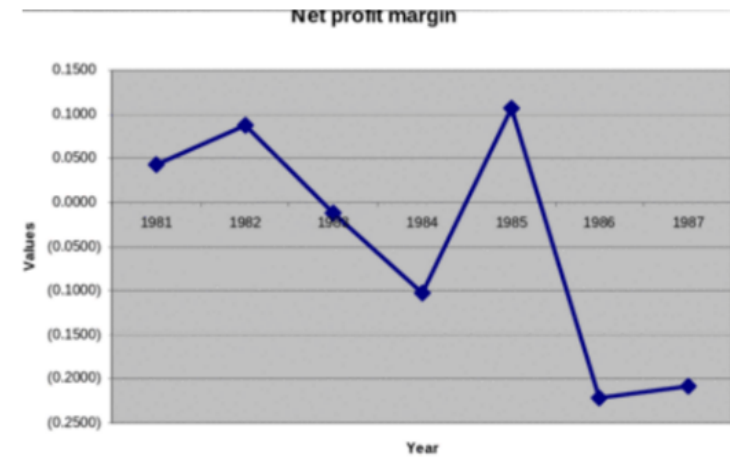
Longterm debt to total capitalization



- frustrating interest earned interest ratio (over the last years)



- the ratio infers the company's overall net loss over the last years

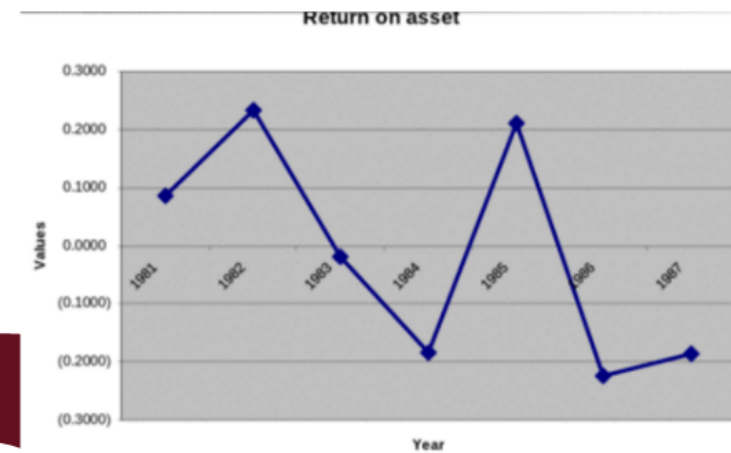


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- decreasing ROE (except 1985)



- ROA shows volatility over the years



SWOT Analysis

Strengths

- 2 notable recoveries
- current ratio

Weaknesses

- sales reduction => negative equity position
- negative sales growth
- dependency on debt
- precarious capital position
- reduction in stock price

Opportunities

- 6th year of overall strength for the economy
- lowest unemployment and interest rates
- increasing birth rates (demography)
- consolidation of toy industry
- consolidation of basic and technology-enhanced toys

Threats

- only largest companies were able to minimize sales and profit volatility through diversification
- fortune depends on strength of new products
- lack of exciting new toy introductions

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Financing and Restructuring Options

- precarious capital position
- creditors were wary of lending any more
- new equity from outsiders was virtually not possible

Alternatives

1. hopes that products will do well
2. merge
3. issuance of more equity at right market price
4. restructure/ renegotiate debts (debt/ equity swap or issuance of common stock/ warrants)
5. liquidation



Alternatives 1 & 2

1. Alternative

- weak sales
- skeptical recovery
- limited prospects of increasing sales
- negative net income
- negative net worth
- default for loans
- no new equity

=> NO

2. Alternative

- merger beneficial only if a synergy happens
- value of total assets < total value of liabilities
- firm's sale cannot cover costs

=> NO