# PR Strategic Finance

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Wintersemester 2015/ 2016

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*Solution: Alternative 5. Liquidate*

Multivariate model of Altman: $Zi = 0{,}717X1i + 0{,}847X2i + 3{,}107X3i + 0{,}420X4i + 0{,}998X5i$

- nonbankrupt: Z>2,90
- bankrupt: Z<1,20
- gray area: 1,20<Z<2,90

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

**THANK YOU FOR YOUR ATTENTION!**

*SWOT Analysis*

*Alternatives 3 & 4*

*Industry Analysis*

*Financial Analysis*

*Financing and Restructuring Options*

*Alternatives 1 & 2*

# National Presto Industries

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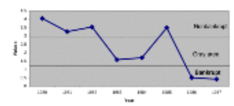

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# National Presto Industries

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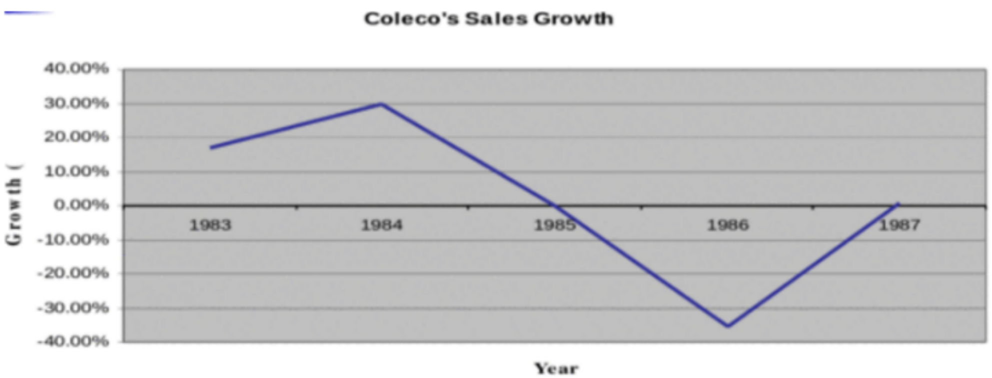
- decreasing sales since 1984
- started increasing again in 1986 but could not make profit

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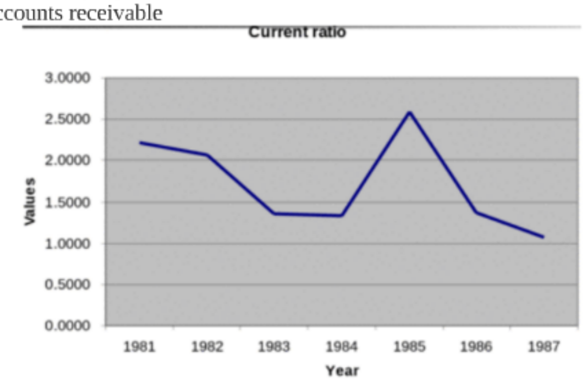
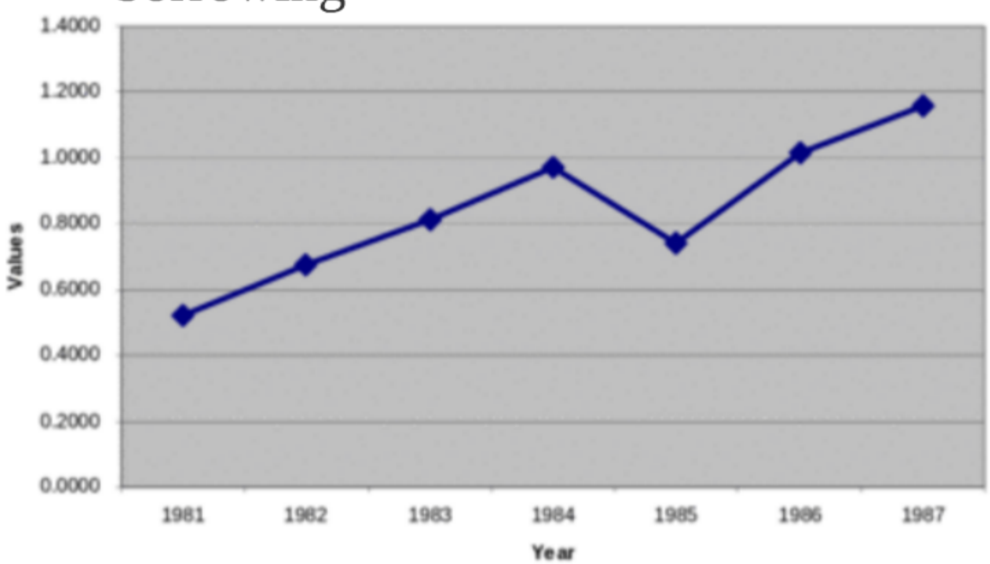
| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|
| Current ratio | 2.2124 | 2.0684 | 1.3601 | 1.3331 | 2.5835 | 1.3676 | 1.0752 |
| Debt ratio | 0.5224 | 0.6759 | 0.8127 | 0.9730 | 0.7425 | 1.0130 | 1.1574 |
| Long term debt to total Capitalization | 0.7049 | 0.8256 | 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

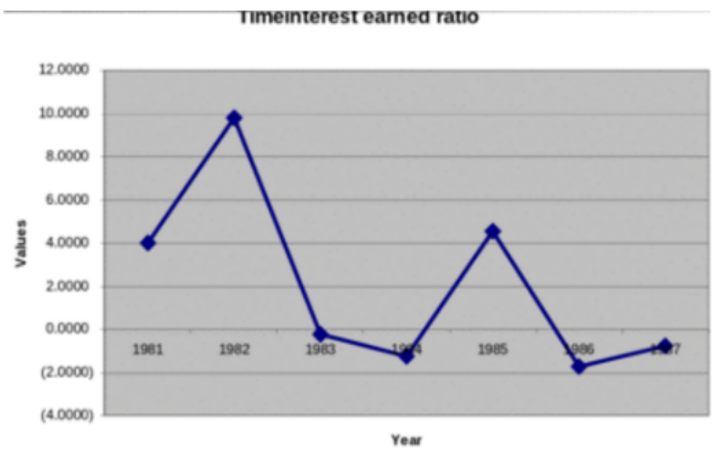



- high degree of dependency on borrowing

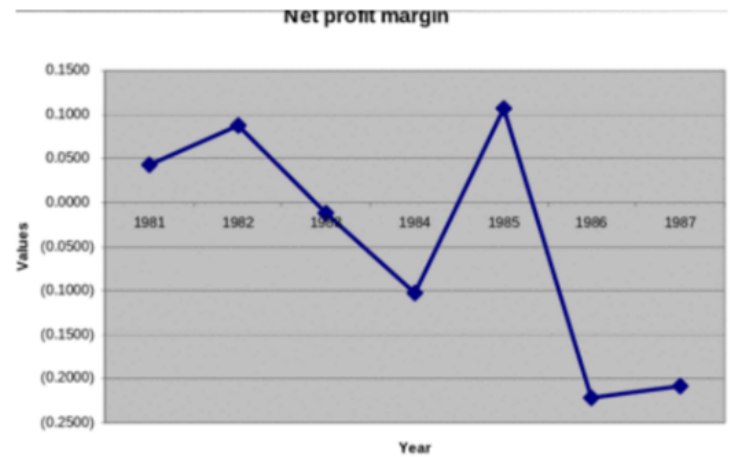



- on the firm's capital: relative importance of long term debt is increasing

- 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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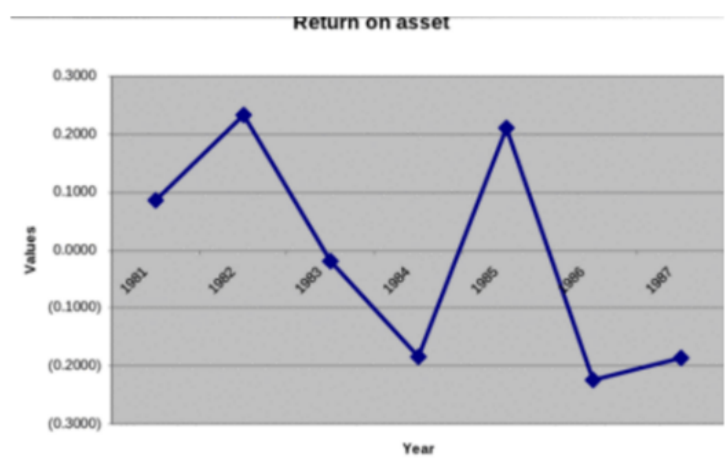
- decreasing ROE (except 1985)


- ROA shows volatility over the years



# SWOT Analysis

Strenghts

- 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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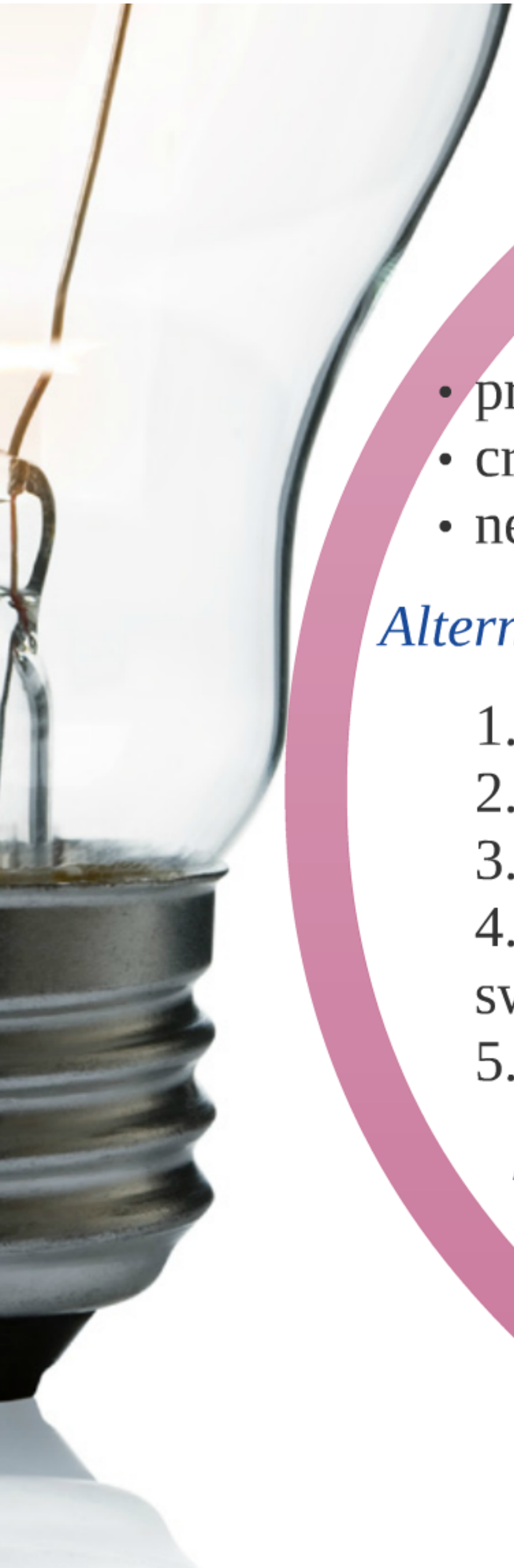

# *Financing and Restructuring Options*

- 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

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# *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 < toal value of liabilities
   - firm's sale cannot cover costs

   => NO

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