

# Strong Tie Ltd. Harvard Case Solution & Analysis

**Summary**

- Strong Tie Ltd. Crisis
- Financial statements
- Company's position in the market
- Debt capital structure
- Executive compensation



**The Cash Problem**

- Lack of payments, not enough cash to cover Short-term debt
- Decrease selling and administrative expenses
- Ward's needs increase to cash
- Historical Cash Flow

Year	2007	2008	2009
Operating Activities	1,200	1,500	1,800
Investing Activities	(500)	(600)	(700)
Financing Activities	(200)	(300)	(400)
Net Change	500	600	700
Free Cash Flow	800	900	1,000
Capital Expenditures	(300)	(400)	(500)
Dividends	(100)	(200)	(300)
Debt Repayment	(100)	(200)	(300)
Equity Issuance	0	0	0
Equity Repurchase	0	0	0
Net Change	500	600	700

**Strong-Tie's Solvency**

- Ability of a company to meet its long-term financial obligations
- Flowing interest payments to debt holders and providing
- Services to debtors to ensure an adequate ability to service
- debt

**Debt-to-Equity Ratio**

**Solvency Ratio**

**Asset Management**

- Inefficient at turning over assets
- Reflected in total asset turnover ratio and ROA
- Automation should make Strong Tie more efficient in all aspects of production

Year	2007	2008	2009
Net Sales	1,200	1,500	1,800
Total Assets	1,500	1,800	2,100
ROA	8%	9%	10%
ROE	12%	13%	14%
Debt-to-Equity	0.8	1.0	1.2
Current Ratio	1.5	1.6	1.7
Debt-to-Capitalization	0.4	0.5	0.6
Debt-to-Assets	0.3	0.4	0.5
Debt-to-Equity	0.8	1.0	1.2
Debt-to-Capitalization	0.4	0.5	0.6
Debt-to-Assets	0.3	0.4	0.5

**Our Recommendations**

- Cut back on health care and benefits expenditures
- Decrease selling and administrative spending
- Fix raw materials turnover ratio-increase in efficiency
  - Use automation correctly
- Temporary cut in daughters salaries
  - Adds cash back to company to pay for expenditures and pay off debts
- Cut in sister Katherine's preferred dividends income as well
- Factor Accounts Receivable-\$2,854,000

# Strong Tie Ltd. Harvard Case Solution & Analysis

**Summary**

- Stronging Products, Canada
- Product sales in decline
- Market competition from the US and Mexico
- Decreasing market share
- Overdependence on one selling agent



**The Cash Problem**

- Lack of payments, not enough cash to cover Short on long term equipment & needs cash flow
- Decrease selling and administrative expenses
- Wood's needs increase to cash
- Investment Capital Required June 2007: \$4,382,000
- 2008: \$5,270,000

Item	2007	2008
Accounts Receivable	1,200,000	1,200,000
Inventory	1,000,000	1,000,000
Prepaid Expenses	100,000	100,000
Accounts Payable	(1,000,000)	(1,000,000)
Long-Term Debt	(1,000,000)	(1,000,000)
Equity	1,000,000	1,000,000
<b>Total</b>	<b>1,200,000</b>	<b>1,200,000</b>

**Strong-Tie's Solvency**

- Feasibility of a company to meet its long-term financial obligations
- Flowing interest payments to debt holders and providing benefits to debtors to maintain or improve its ability to continue operating

**Debt-to-Equity Ratio**

**Solvency Ratio**

**Asset Management**

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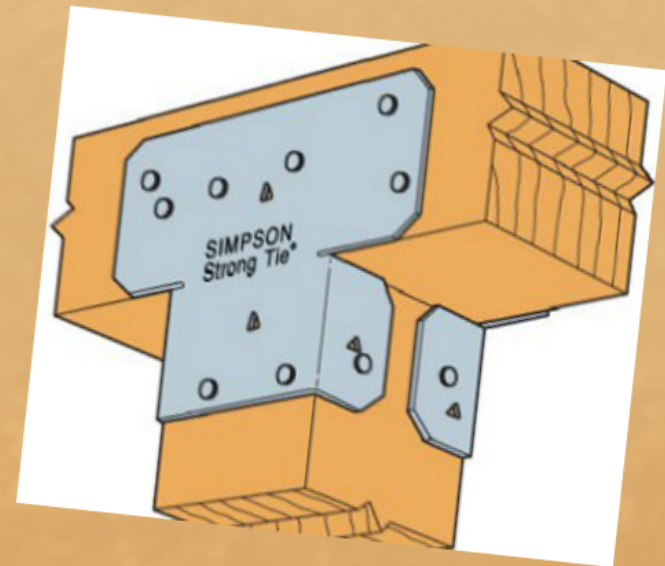
Item	2007	2008
Accounts Receivable	1,200,000	1,200,000
Inventory	1,000,000	1,000,000
Prepaid Expenses	100,000	100,000
Accounts Payable	(1,000,000)	(1,000,000)
Long-Term Debt	(1,000,000)	(1,000,000)
Equity	1,000,000	1,000,000
<b>Total</b>	<b>1,200,000</b>	<b>1,200,000</b>

**Our Recommendations**

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# Summary

- Winnipeg, Manitoba, Canada
- Family-owned corporation
- Investing heavily in factory automation
- Decreasing market share
- Construction industry decline





# The Cash Problem

- Lots of payments, not enough cash to cover them in long term if current trends continue
- Decrease selling and administrative expenses
- Would create increase in cash
- Excessive Capital Expenditures  
2007: \$4,283,000  
2008: \$5,370,000

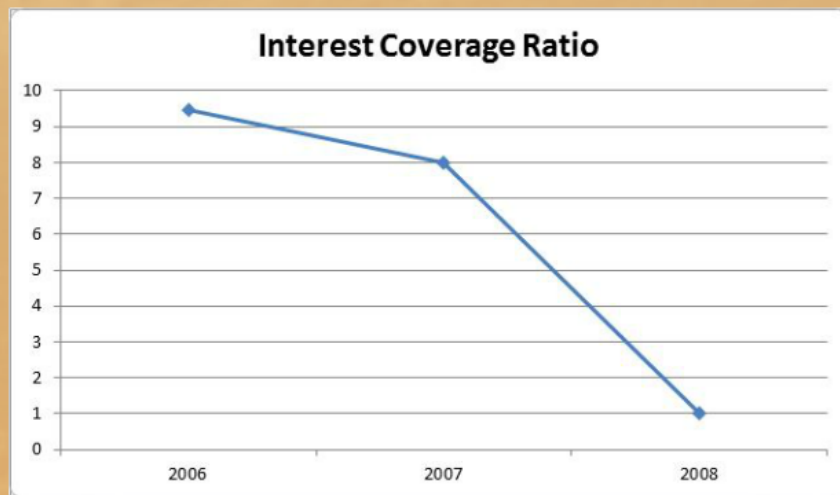
	2008	2009
Net Sales	\$ 16,500	\$ 16,362
COGS	\$ 11,950	\$ 11,698
Gross Profit	\$ 4,550	\$ 4,664
Selling and Admin	\$ 3,379	\$ 3,512
Depreciation	\$ 756	\$ 796
Operating Income	\$ 415	\$ 356
Other Income		
Interest Income	\$ 2	\$ 2
Other Expenses		
Interest Expense	\$ 407	\$ 431
Income Before Taxes	\$ 10	\$ (73.28)
Income Taxes	\$ 3	\$ 2.00
Net Income	\$ 7	\$ (75.28)

# Strong-Tie's Solvency

- The ability of a company to meet its long-term financial obligations
- Ensuring interest payments to debt holders and preventing bankruptcy depends mainly on a company's ability to sustain earnings

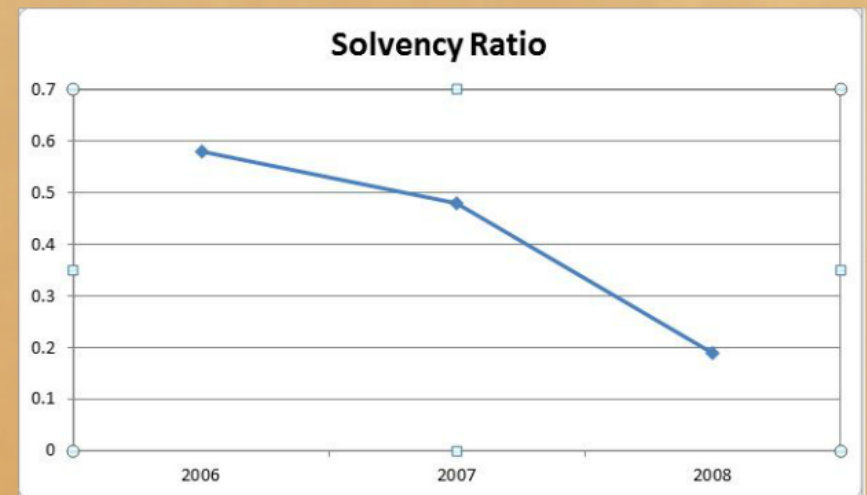
## Interest Coverage Ratio

2006: 9.46 2007: 7.99 2008: 1.02



## Solvency Ratio

2006: 0.58 2007: 0.48 2008: 0.19



# Asset Management

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- Reflected in total asset turnover ratio and ROA
- Automation should make Strong Tie more efficient in all aspects of production

	Industry Average	Strong Tie
Raw Materials Turn	31	42.61
WIP Turn	3	1.28
Finished Goods Turn	51	36.65
A/R Turn	63	63.13
A/P Turn	11	11.06
Tot Asset Turn	1.70	1.31
Net Profit Margin	10.0%	0.04%
ROA	17.0%	0.06%
ROE	28.0%	0.11%



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**The Cash Problem**

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- Ward's needs increase to cash
- Financial Capital Structure

2007	2008	2009
14,382,000	14,382,000	14,382,000
15,700,000	15,700,000	15,700,000

**Strong-Tie's Solvency**

- Ability of a company to meet its long-term financial obligations
- How are interest payments to debt holders and providing
- Services to clients to maintain or increase its ability to operate

**Debt-to-Equity Ratio**

**Solvency Ratio**

**Asset Management**

- Inefficient at turning over assets
- Reflected in total asset turnover ratio and ROA
- Automation should make Strong Tie more efficient in all aspects of production

2007	2008	2009
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0
1.0	1.0	1.0



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