PR Strategic Finance
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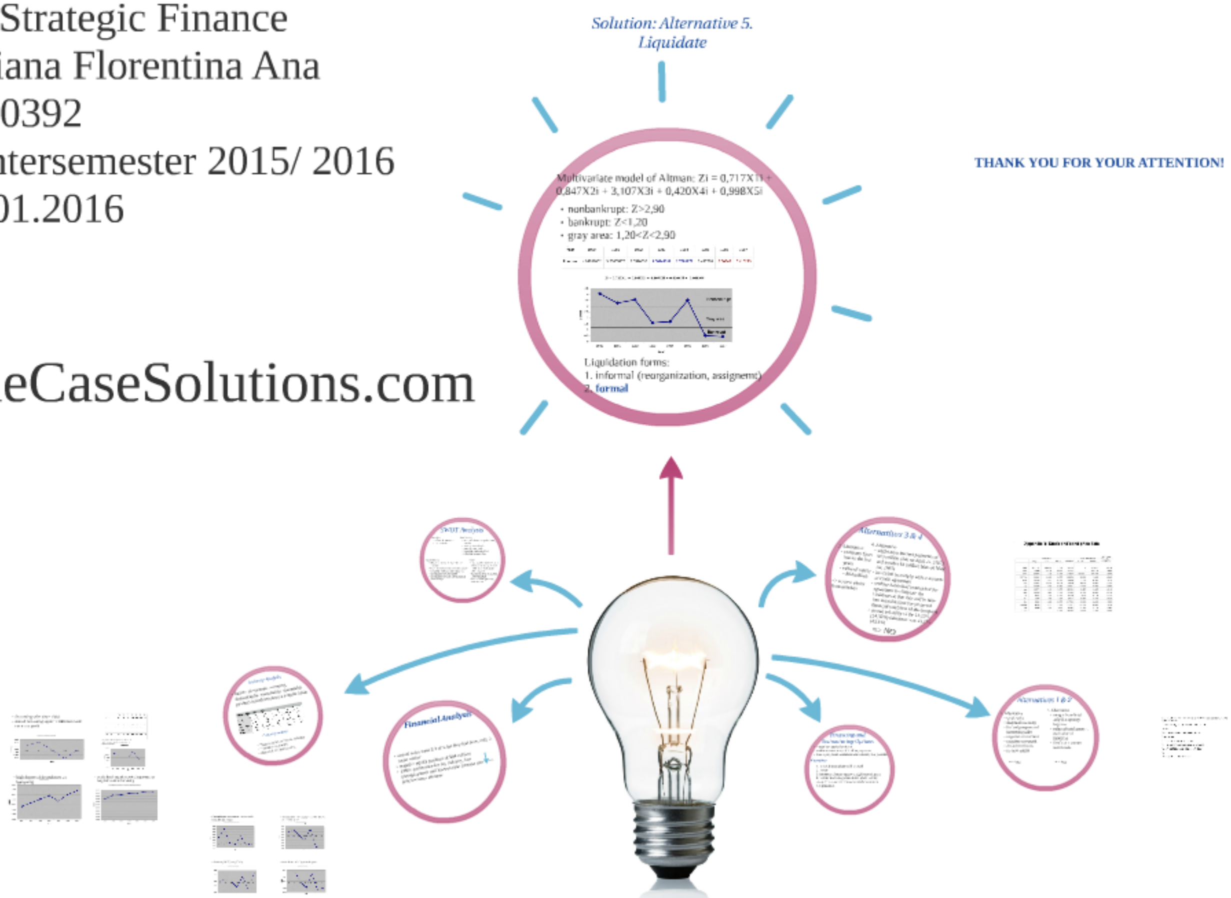
0900392
Wintersemester 2015/ 2016
08.01.2016

TheCaseSolutions.com



Coleco Industries - Case Study 4

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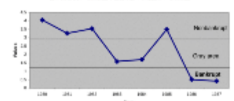
Solution: Alternative 5. Liquidate

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

Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Z-score	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



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

THANK YOU FOR YOUR ATTENTION!

Coleco Industries - Case Study 4

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

Industry Analysis

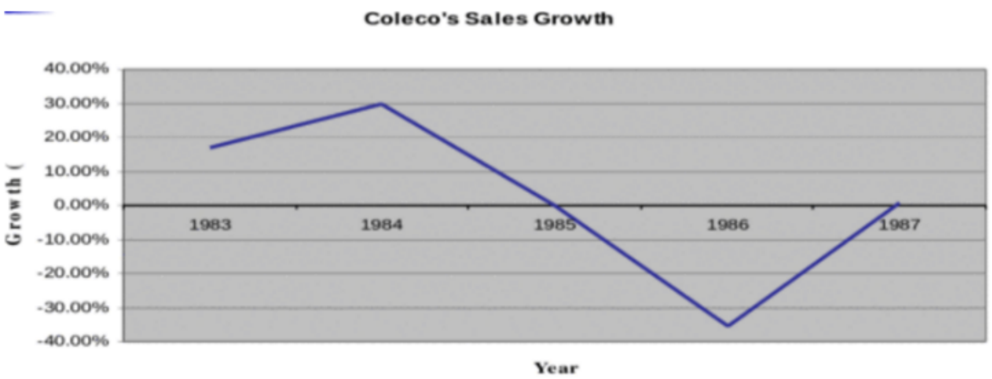
- factors of success: economy, demography, seasonality, successful product introduction on a regular basis

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

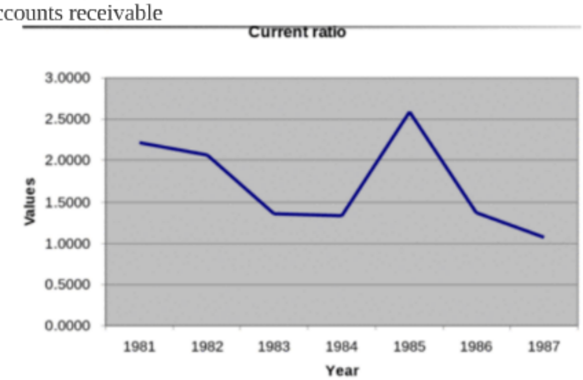
- "high-wire act of the toy industry
- 2 notable recoveries
- skeptical for 3rd recovery

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

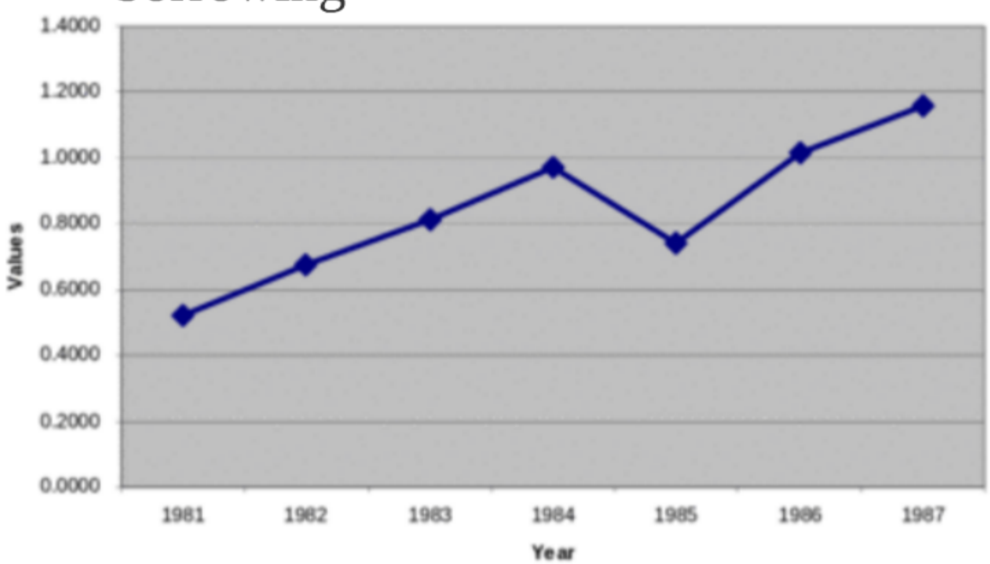


	1981	1982	1983	1984	1985	1986	1987
Current ratio	2.2124	2.0684	1.3601	1.3331	2.5835	1.3676	1.0752
Debt ratio	0.5224	0.6759	0.8127	0.9730	0.7425	1.0130	1.1574
Long term debt to total Capitalization	0.7049	0.8256	0.8373	0.8933	0.9007	0.9489	0.9464
Time interest earned ratio	4.0121	9.8026	(0.2681)	(1.2756)	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

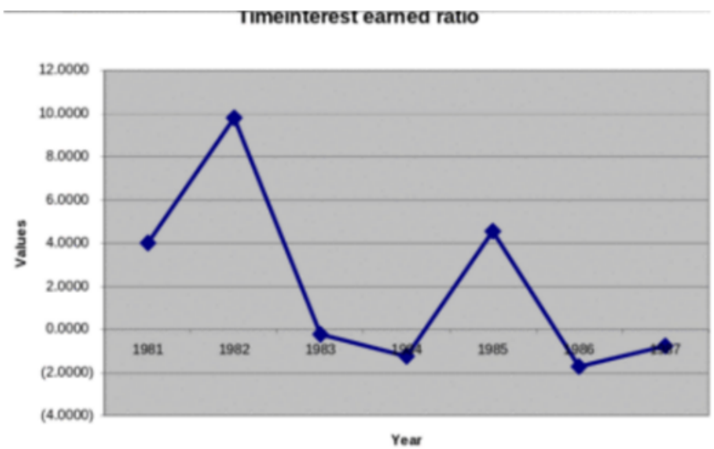


- high degree of dependency on borrowing

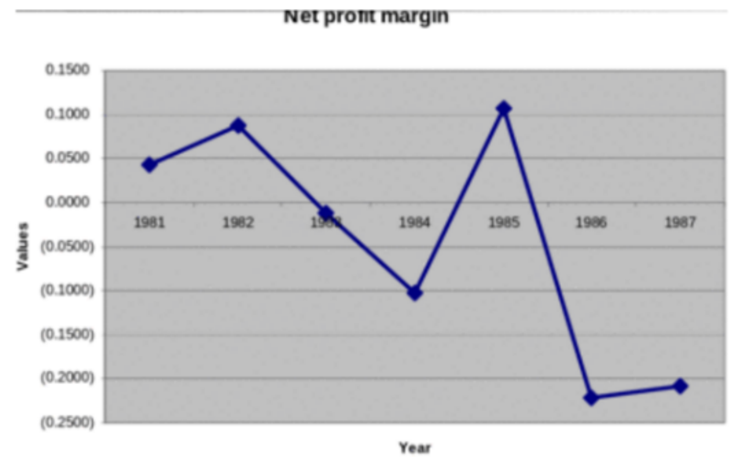


- on the firm's capital: relative importance of long term debt is increasing

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



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



- 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

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