CASE OF FINANCIAL RATIO ANALYSIS: FOOD RETAIL INDUSTRY IN CANADA (2012 – 2016)

(ALIMENTATION COUCHE TARD – GEORGE WESTON – LOBLAW COMPANIES – METRO – SAPUTO – MAPLE LEAF FOODS)

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CONCLUSIONS

a) It is important for every manager or business owner to periodically do financial analysis of its business. One of these analysis can be a financial ratio analysis, to review both the performance of the company as well as its profitability.

b) Financial ratio, as seen in this analysis, have certain advantages (and some disadvantages, too). It is possible to compare companies with different size. It is possible to compare companies from different countries. Changes in time because of size of the company or inflation can be minimized with a financial ratio analysis.

c) Three of the six companies analyzed in this report are above the average (2012-2016) ROCE ratio for the Canadian market: 6.3%. This could mean a good performance and therefore a good profitability: Alimentation Couche-Tard 12.0%, Metro 11.9% and Saputo 11.7%. Three are below: George Weston 5.5%, Loblaw 4.9% and Maple Leaf Foods 2.1%. The areas to improve are very likely not the same for each of these companies. Trends should be analyzed in detail for each case.

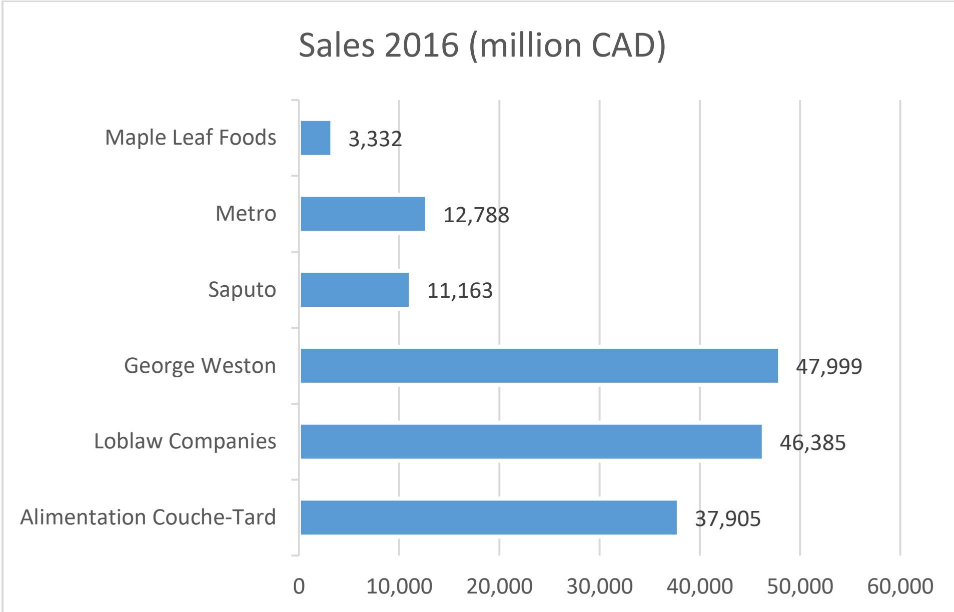
WHAT WE DO FOR THIS ANALYSIS

a) This is a more or less common analysis that we do at Acus Consulting Ltd.

b) Specifically for this analysis we selected six of the largest public companies in the food retail industry in Canada. All of them are listed in the Toronto Stock Exchange (TSX).

c) The six companies analyzed are Alimentation Couche-Tard Inc (ATD), George Weston Ltd (WN), Loblaw Companies Ltd (L), Metro Inc (MRU), Saputo Inc (SAP) and Maple Leaf Foods Inc (MFI).

d) Their relative size is quite different. The largest in sales is George Weston and the smallest is Maple Leaf Foods. Fiscal years of three of these companies do not end in December, so the period considered is the closest to the period January to December of 2016. If we set the annual sales of George Weston as an index of 100, then Loblaw is 97, Alimentation Couche-Tard 79, Metro is 27, Saputo is 23 and Maple Leaf Foods is 7. Sales of George Weston were 48 billion CAD in 2016.



e) We based our analysis in the financial statements that each company reported for the last five years in their annual reports. We gathered all the financial information in our computer in a standardized format. Then we did some calculations needed for the analysis (like EBIT, EBITDA, NOPAT and capital employed). After this we calculated financial ratios for each company and for each year. At last, we synthesized the ratios in some summarized tables and we prepared some graphs. We included information from the Canadian market as a reference. At last, the analysis based on this information, our knowledge and experience took place.

f) For practical reasons, we work with the figures of the balance sheet at the end of the year. It is definitively better to work with the average figures of the year (average of the 4 quarters or average of the 12 months). Doing the calculation of the ratios this way may imply certain imperfection in the process, although working with averages is not a perfect process neither.

RETURN ON CAPITAL EMPLOYED (ROCE)

a) In Table I we are presenting the Return on Capital Employed (ROCE) for the last five years for each of these six companies. This is probably the most important measurement in financial ratios. At the end, profitability is the reason why we have a business running. ROCE is defined as NOPAT over capital employed. NOPAT (net operating profit after taxes) is EBIT minus adjusted taxes. EBIT is close to operating income. Capital employed is the total assets minus liabilities with non-financial cost minus cash and cash equivalents. ROCE gives us a measurement of wealth creation based on invested resources in the company. The larger this figure the better. The central idea behind this ratio is that we should intend to create wealth with the least invested resources. If we invest more in a company (or business unit) a larger profit should be expected to justify the additional investment.

Table I: Return on Capital Employed = NOPAT / Capital Employed

	2012	2013	2014	2015	2016	*Average*
Alimentation Couche-Tard	10.2%	11.4%	12.8%	13.4%	12.3%	*12.0%*
Loblaw Companies	7.3%	6.8%	1.6%	3.5%	5.3%	*4.9%*
George Weston	7.4%	7.6%	2.8%	4.3%	5.4%	*5.5%*
Saputo	12.6%	11.6%	11.1%	11.1%	12.2%	*11.7%*
Metro	12.0%	12.0%	10.9%	12.0%	12.4%	*11.9%*
Maple Leaf Foods	3.4%	-3.7%	-2.9%	3.6%	9.9%	*2.1%*
Canadian market	6.9%	6.5%	6.8%	5.2%	5.9%	*6.3%*

b) As we can see in Table I, in average for the last 5 years, Alimentation Couche-Tard has the largest ROCE with 12.0%. It is followed very close by Metro with 11.9% and by Saputo with 11.7%. Behind are George Weston 5.5%, Loblaw Companies 4.9% and Maple Leaf Foods 2.1%. All six companies have positive ROCE, but only three of them are above the average of the Canadian market. How important is 1.0 percentage point for Alimentation Couche-Tard? Well, it is a matter of size. The capital employed of Alimentation Couche-Tard in 2016 is around $10.6 billion CAD. Therefore, 1.0 percentage point will mean close to $106 million CAD a year of additional profit. In the case of Loblaw Companies, its capital employed in 2016 is around $27.4 billion CAD. Therefore an extra 1.0 percentage point will mean close to $274 million CAD a year of additional profit. Not bad at all. Very likely, performance bonuses of the executive team should be based in these accomplishments.

c) It calls our attention the trend. Trends for Alimentation Couche-Tard, Saputo and Metro are quite stable. Loblaw Companies and George Weston have a significant decrease in 2014 and have not recovered to the levels of 2012 and 2013. Maple Leaf Foods, on its side, had a quite good ROCE in 2016, but in 2013 and 2014 had negative ROCE ratios.

d) At this point, we are analyzing ROCE ratio but not economic value creation or EVA®. Economic value creation or EVA® is a dollar amount measurement and has to do with profitability but also with the size of the invested capital (or capital employed). We will analyze this measurement in a coming article.

RETURN ON EQUITY (ROE)

a) In Table II we are presenting the Return on Equity (ROE) for the last five years for each of these six companies. This financial ratio is important for shareholders. But, in spite of this, ROCE is still more important since there cannot be ROE in the medium and long range if the company previously does not have a ROCE. Shareholders are looking for a return to their investment. The largest the better. ROE is defined as net income (from continuous operations) over shareholders equity. Shareholders should analyze this ratio, among several other things, when deciding about investing more in a company.

Table II: Return on Equity = Net Income / Shareholders Equity

	2012	2013	2014	2015	2016	*Average*
Alimentation Couche-Tard	17.8%	20.4%	23.8%	23.6%	20.1%	*21.2%*
Loblaw Companies	9.9%	9.0%	0.4%	4.5%	7.6%	*6.3%*
George Weston	8.8%	9.5%	0.9%	5.6%	7.4%	*6.4%*
Saputo	20.9%	18.8%	16.9%	14.8%	16.9%	*17.7%*
Metro	19.3%	24.9%	17.0%	19.5%	21.8%	*20.5%*
Maple Leaf Foods	4.4%	-8.6%	-9.5%	2.1%	8.7%	*-0.6%*
Canadian market	10.2%	9.4%	10.9%	6.2%	9.0%	*9.1%*

b) As we can see in Table II, in average for the last 5 years, Alimentation Couche-Tard has the largest ROE with 21.2%. It is followed by Metro with 20.5%, Saputo with 17.7%, George Weston 6.4%, Loblaw Companies 6.3% and Maple Leaf Foods -0.6%. Five companies have positive ROE, but only three of them are above the average of the Canadian market.

c) In 2016 Metro has the best performance and Alimentation Couche-Tard is second. Maple Leaf Foods is fourth in 2016 and not sixth as it is in the average. In this case, as an example, one percentage point for Metro in ROE means around $27 million CAD of net income and for Loblaw Companies $130 million CAD of net income.

d) In 2016 Loblaw Companies, George Weston, Metro and Maple Leaf Foods did better than the average of the last five years.

THE DUPONT MODEL

a) The Dupont Model is a conceptual framework that Return on Capital Employed (ROCE), and profitability in general, can be explained and analyzed with two variable: NOPAT Sales Margin and Capital Employed Turnover. The first one is the margin that we get of NOPAT for every dollar of sales. The turnover is the sales over the capital employed. It will give us a measurement of efficiency in the use of resources invested. For example, a fancy restaurant has a low turnover (huge investment for every dollar of sales), but the margin is high (exotic prices for an exotic meal). On the contrary, a fast food has low margins but also a high turnover since investment is low and sales are relatively large for each dollar invested.

b) Usually this pattern is similar for companies in the same industry. In this case, average NOPAT Sales Margin is 6.6% for Saputo and its average Capital Employed Turnover is 1.78. For Alimentation Couche-Tard average NOPAT Sales Margin is 2.9% but its average Capital Employed Turnover is 4.33. Some of these companies probably have to work in improving margin and others in improving turnover (just making sure they are not underinvesting in renewal of assets).

c) We use the framework of the Dupont Model to define strategies for a company, aimed to increase profitability.

FINANCIAL LEVERAGE

a) How is each company funding itself? In Table III we are presenting the Financial Leverage (usually known simply as "leverage") for the last five years for each of these six companies. This financial ratio is telling us how much of external sources are being used for the funding of the company. Financial leverage is defined as total liabilities over shareholders' equity. This is, for example, George Weston has an average financial leverage of 1.6. This means that for every dollar the shareholders have in equity in the company, there are 1.6 dollars in liabilities. It is usually good to use external sources for funding the operation, but too much can increase the risks of not being able to pay financing on time. Cash inflows are usually seasonal and more unpredictable; payments to banks are fixed and monthly.

Table III: Financial Leverage = Total Liabilities / Shareholders Equity

	2012	2013	2014	2015	2016	*Average*
Alimentation Couche-Tard	2.3	1.7	1.8	1.4	1.4	*1.7*
Loblaw Companies	1.8	2.0	1.6	1.6	1.6	*1.7*
George Weston	1.7	1.8	1.6	1.6	1.6	*1.6*
Saputo	1.3	1.2	0.9	0.8	0.8	*1.0*
Metro	1.0	0.8	1.0	1.0	1.1	*1.0*
Maple Leaf Foods	2.4	1.2	0.3	0.3	0.3	*0.9*
Canadian market	1.4	1.4	1.5	1.5	1.5	*1.5*

b) As we can see in Table III, in average for the last 5 years, Alimentation Couche-Tard and Loblaw Companies have the largest financial leverage with 1.7. They are followed by George Weston 1.6, Saputo and Metro with 1.0 and Maple Leaf Foods with 0.9. The average of the Canadian market that is 1.5. This is, three of these companies are above this average and three are below.

SOME OTHER RATIOS AND SOME GRAPHS

We do calculate around 20 ratios per company per year. Here below are only tables with some ratios for each company as well as some graphs for you to understand more of the financial analysis with financial ratios for these companies:

Table IV: Relevant Figures for 2016 (in million CAD)

	Sales	NOPAT	Capital employed
Alimentation Couche-Tard	37,905	1,302	10,617
Loblaw Companies	46,385	1,439	27,362
George Weston	47,999	1,581	29,543
Saputo	11,163	761	6,247
Metro	12,788	563	4,527
Maple Leaf Foods	3,332	194	1,951

Table V: Some Financial Ratios for Alimentation Couche-Tard Inc

	2013 Apr 2013	2014 Apr 2014	2015 Apr 2015	2016 Apr 2016	2017 Apr 2017
ROI Return on investment	8.0%	9.8%	12.0%	13.6%	12.0%
ROCE Return on capital employed	10.2%	11.4%	12.8%	13.4%	12.3%
ROE Return on equity from continuing operations	17.8%	20.4%	23.8%	23.6%	20.1%
EBIT / Sales	2.4%	2.6%	3.9%	4.7%	4.5%
EBITDA / Sales	3.9%	4.1%	5.5%	6.6%	6.3%
NOPAT / Sales	2.1%	2.2%	3.0%	3.5%	3.4%
Sales / Total assets	3.37	3.60	3.13	2.78	2.67
Sales / Capital employed	4.84	5.14	4.32	3.78	3.57
Sales / Net PPE	7.00	7.40	6.17	5.36	5.06
Cash / Total assets	6.4%	4.9%	5.2%	4.9%	4.5%
Current assets / current liabilities	1.05	1.21	1.11	1.08	0.98
Total liabilities / equity	2.3	1.7	1.8	1.4	1.4
Depreciation / sales	1.5%	1.5%	1.5%	1.9%	1.8%
Days sales	16	16	13	14	14
Days inventory	10	9	10	10	10
Days payable	27	27	28	32	31
Accounts receivable / Accounts payable	0.69	0.69	0.56	0.56	0.55

Table VI: Some Financial Ratios for Loblaw Companies Ltd

	2012 Dec 2012	2013 Dec 2013	2014 Dec 2014	2015 Dec 2015	2016 Dec 2016
ROI Return on investment	6.7%	6.4%	2.0%	4.7%	6.1%
ROCE Return on capital employed	7.3%	6.8%	1.6%	3.5%	5.3%
ROE Return on equity from continuing operations	9.9%	9.0%	0.4%	4.5%	7.6%
EBIT / Sales	3.8%	4.1%	1.6%	3.5%	4.5%
EBITDA / Sales	6.2%	6.6%	5.0%	7.0%	7.8%
NOPAT / Sales	2.8%	3.0%	1.1%	2.2%	3.1%
Sales / Total assets	1.76	1.56	1.26	1.32	1.35
Sales / Capital employed	2.56	2.27	1.53	1.62	1.70
Sales / Net PPE	3.52	3.56	4.14	4.33	4.39
Cash / Total assets	10.0%	12.3%	3.0%	3.1%	4.5%
Current assets / current liabilities	1.24	1.43	1.45	1.36	1.47
Total liabilities / equity	1.8	2.0	1.6	1.6	1.6
Depreciation / sales	2.5%	2.5%	3.5%	3.5%	3.3%
Days sales	31	35	32	33	31
Days inventory	30	31	48	47	47
Days payable	55	55	54	56	55
Account receivables / Account payables	0.74	0.82	0.80	0.81	0.80

Table VII: Some Financial Ratios for George Weston Ltd

	2012 Dec 2012	2013 Dec 2013	2014 Dec 2014	2015 Dec 2015	2016 Dec 2016
ROI Return on investment	6.4%	6.6%	2.6%	5.0%	5.9%
ROCE Return on capital employed	7.4%	7.6%	2.8%	4.3%	5.4%
ROE Return on equity from continuing operations	8.8%	9.5%	0.9%	5.6%	7.4%
EBIT / Sales	4.3%	4.8%	2.2%	4.1%	4.7%
EBITDA / Sales	6.8%	7.5%	5.7%	7.7%	8.1%
NOPAT / Sales	3.2%	3.6%	1.9%	2.7%	3.3%
Sales / Total assets	1.50	1.36	1.18	1.23	1.26
Sales / Capital employed	2.34	2.08	1.48	1.56	1.62
Sales / Net PPE	3.46	3.48	4.02	4.13	4.16
Cash / Total assets	17.1%	17.7%	6.5%	6.7%	6.8%
Current assets / current liabilities	1.47	1.56	1.55	1.39	1.48
Total liabilities / equity	1.7	1.8	1.6	1.6	1.6
Depreciation / sales	2.6%	2.7%	3.5%	3.6%	3.4%
Days sales	31	35	32	33	32
Days inventory	31	32	49	48	48
Days payable	57	57	54	58	57
Account receivables / Account payables	0.73	0.81	0.80	0.79	0.79

Table VIII: Some Financial Ratios for Saputo Inc

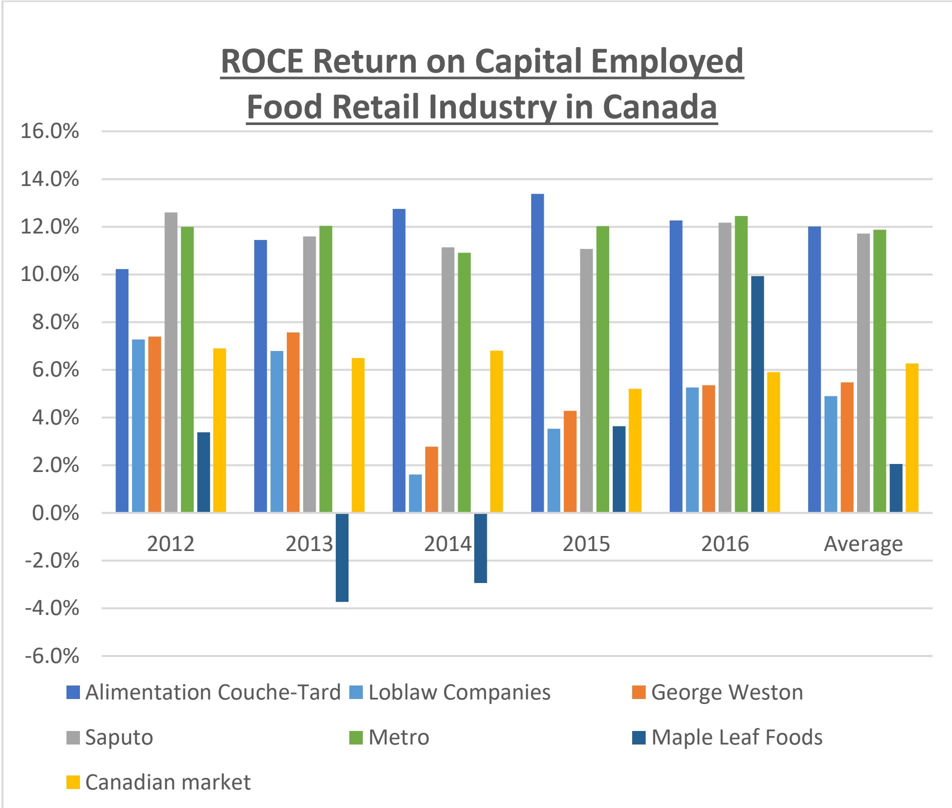
	2013 Mar 2013	2014 Mar 2014	2015 Mar 2015	2016 Mar 2016	2017 Mar 2017
ROI Return on investment	14.3%	13.7%	13.1%	13.6%	14.2%
ROCE Return on capital employed	12.6%	11.6%	11.1%	11.1%	12.2%
ROE Return on equity from continuing operations	20.9%	18.8%	16.9%	14.8%	16.9%
EBIT / Sales	10.2%	9.5%	8.4%	8.9%	9.7%
EBITDA / Sales	11.8%	11.0%	10.0%	10.7%	11.6%
NOPAT / Sales	7.4%	6.7%	6.0%	6.1%	6.8%
Sales / Total assets	1.41	1.45	1.57	1.53	1.47
Sales / Capital employed	1.71	1.74	1.85	1.81	1.79
Sales / Net PPE	4.51	4.79	5.14	5.27	5.15
Cash / Total assets	0.8%	0.6%	1.1%	2.3%	3.3%
Current assets / current liabilities	1.23	1.10	1.66	1.60	1.99
Total liabilities / equity	1.3	1.2	0.9	0.8	0.8
Depreciation / sales	1.6%	1.6%	1.6%	1.8%	1.9%
Days sales	31	32	27	27	28
Days inventory	47	45	41	44	47
Days payable	46	43	37	36	41
Account receivables / Account payables	0.84	0.90	0.87	0.93	0.86

Table IX: Some Financial Ratios for Metro Inc

	2012 Sep 2012	2013 Sep 2013	2014 Sep 2014	2015 Sep 2015	2016 Sep 2016
ROI Return on investment	12.4%	11.6%	11.5%	12.6%	13.3%
ROCE Return on capital employed	12.0%	12.0%	10.9%	12.0%	12.4%
ROE Return on equity from continuing operations	19.3%	24.9%	17.0%	19.5%	21.8%
EBIT / Sales	5.5%	5.1%	5.2%	5.6%	5.8%
EBITDA / Sales	7.0%	6.7%	6.7%	7.0%	7.3%
NOPAT / Sales	4.0%	4.0%	3.9%	4.2%	4.4%
Sales / Total assets	2.26	2.25	2.20	2.27	2.28
Sales / Capital employed	2.98	3.01	2.77	2.83	2.82
Sales / Net PPE	9.12	8.58	8.24	8.30	8.02
Cash / Total assets	1.4%	1.6%	0.7%	0.4%	0.5%
Current assets / current liabilities	1.03	0.99	1.11	1.10	1.12
Total liabilities / equity	1.0	0.8	1.0	1.0	1.1
Depreciation / sales	1.6%	1.6%	1.5%	1.4%	1.4%
Days sales	10	9	10	9	9
Days inventory	26	26	27	26	25
Days payable	36	34	33	32	31
Account receivables / Account payables	0.30	0.30	0.32	0.29	0.30

Table X: Some Financial Ratios for Maple Leaf Foods

	2012 Dec 2012	2013 Dec 2013	2014 Dec 2014	2015 Dec 2015	2016 Dec 2016
ROI Return on investment	4.1%	-3.4%	-5.6%	2.2%	9.7%
ROCE Return on capital employed	3.4%	-3.7%	-2.9%	3.6%	9.9%
ROE Return on equity from continuing operations	4.4%	-8.6%	-9.5%	2.1%	8.7%
EBIT / Sales	N/A	-4.1%	-2.5%	2.8%	8.0%
EBITDA / Sales	N/A	0.7%	1.0%	6.6%	11.3%
NOPAT / Sales	N/A	-3.0%	-1.9%	2.2%	5.8%
Sales / Total assets	N/A	0.82	1.10	1.26	1.27
Sales / Capital employed	N/A	1.24	1.56	1.62	1.71
Sales / Net PPE	N/A	2.23	3.03	3.04	3.07
Cash / Total assets	2.8%	14.1%	17.2%	11.1%	15.3%
Current assets / current liabilities	1.48	1.22	2.75	2.53	2.59
Total liabilities / equity	2.4	1.2	0.3	0.3	0.3
Depreciation / sales	N/A	4.8%	3.5%	3.7%	3.4%
Days sales	N/A	28	19	18	17
Days inventory	N/A	50	46	45	49
Days payable	N/A	84	34	32	34
Account receivables / Account payables	0.54	0.35	0.62	0.63	0.63


ROCE Return on Capital Employed
Food Retail Industry in Canada
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
2012
2013
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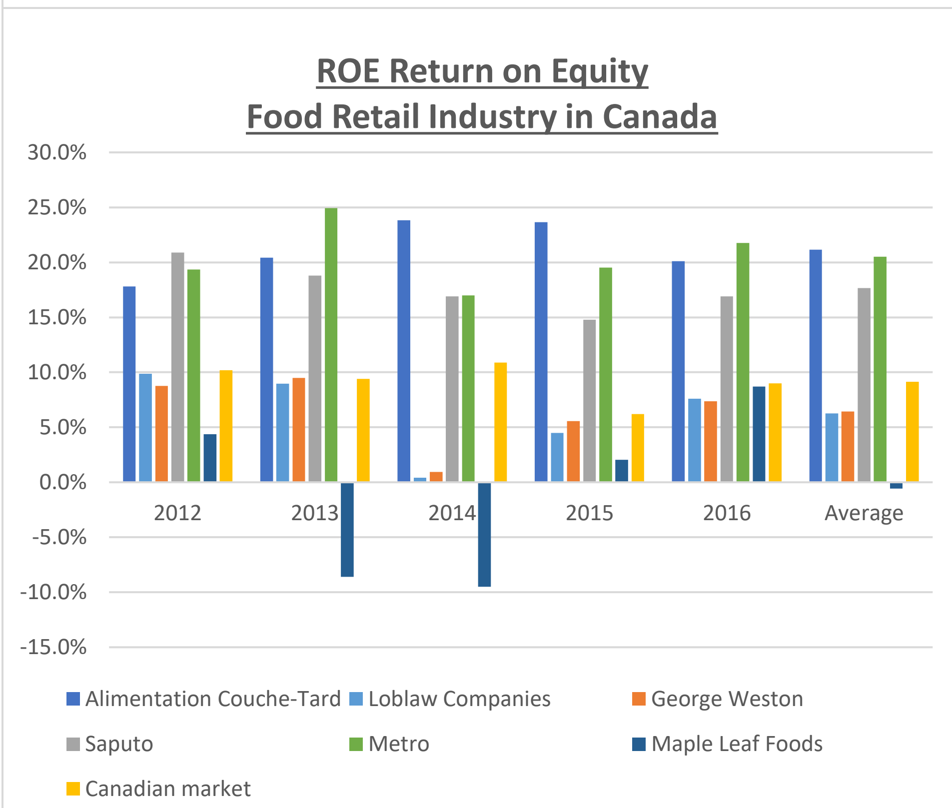
Average
Alimentation Couche-Tard
Loblaw Companies
George Weston
Saputo
Metro
Maple Leaf Foods
Canadian market


ROE Return on Equity
Food Retail Industry in Canada
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
2012
2013
2014
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2016
Average
Alimentation Couche-Tard
Loblaw Companies
George Weston
Saputo
Metro
Maple Leaf Foods
Canadian market

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About Alberto Calva. His expertise field is finance and economy. He has been a business consultant for more than 20 years. He has given seminars and workshops in 8 different countries having trained with this around 10,000 executives and entrepreneurs from 20 different countries. He has a unique mix of academic, practical, entrepreneurial, hands on experience and board member background. He holds a Bachelor degree of Industrial Engineering, a Master degree of Economics and an MBA with a major of Finance.

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