



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate Finance

INSTRUCTIONAL AREA

Financial Analysis

FINANCIAL STATEMENT ANALYSIS EVENT
PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 60 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills—the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills—the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills—the ability to take a concept from an idea and make it real
- Priorities/time management—the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

1. Interpret financial statements.
2. Describe bankruptcy prediction models.
3. Discuss the analysis of a company's financial situation using its financial statements.
4. Describe the nature of corporate bankruptcy.
5. Discuss the use of variance analysis in managerial accounting.

CASE STUDY SITUATION

You are senior consultants for a consulting firm that specializes in the on-going concern of corporations. Based on recent industry news, your manager has asked for a full analysis of what happened to Toys “R” Us, Inc.

Toys “R” Us, Inc. is a retail toy chain founded in 1948 by Charles Lazarus. Tracing its origins as a children’s furniture store in Washington, D.C., Lazarus then shifted the company’s focus to toys. After being in business for almost 70 years, operating stores both domestically and internationally, Toys “R” Us filed for Chapter 11 bankruptcy protection on September 18, 2017. Shortly thereafter, on March 15, 2018, Toys R Us announced it would be going out of business and liquidating its stores and inventory.

Below are the quarterly reported Balance Sheet financials for the past fiscal year, starting October 29, 2016 to October 28, 2017:

TOYS "R" US, INC. AND SUBSIDIARIES					
CONDENSED CONSOLIDATED BALANCE SHEETS					
(Unaudited)					
(In millions)	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
ASSETS					
<i>Current Assets:</i>					
Cash and cash equivalents	432	308	301	566	420
Accounts and other receivables	282	242	229	255	301
Merchandise inventories	2,912	2,597	2,429	2,476	3,472
Prepaid expenses and other current assets	216	112	132	92	135
Total current assets	3,842	3,259	3,091	3,389	4,328
Property and equipment, net	2,842	3,032	3,030	3,067	3,074
Goodwill	64	64	64	64	64
Deferred tax assets	18	24	130	129	99
Restricted cash	313	60	56	54	49
Other assets	183	197	201	205	252
Total assets	7,262	6,636	6,572	6,908	7,866

LIABILITIES, TEMPORARY EQUITY AND SHAREHOLDERS' DEFICIT					
<i>Current Liabilities:</i>					
Accounts Payable	1,153	1,404	1,204	1,695	2,107
Accrued expenses and other current liabilities	460	831	759	897	950
Income taxes payable	6	11	20	27	33
Current portion of long-term debt	95	3,176	163	119	70
Total current liabilities	1,714	5,422	2,146	2,738	3,160
Long-term debt	2,844	2,020	5,049	4,642	5,493
Deferred tax liabilities	38	39	77	75	79
Deferred rent liabilities	155	343	342	342	341
Other non-current liabilities	161	246	277	271	260
Total liabilities not subject to compromise	4,912	8,070	7,891	8,068	9,333
Liabilities subject to compromise	4,349	-	-	-	-
Temporary equity	-	-	-	132	119
Total stockholders' deficit	(1,999)	(1,434)	(1,319)	(1,292)	(1,586)
Total Liabilities, Temporary Equity and Stockholders' Deficit	7,262	6,636	6,572	6,908	7,866

Additionally, below are the Statement of Operations financials reported quarterly, with each statement date covering a 13-week period:

TOYS "R" US, INC. AND SUBSIDIARIES					
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS					
(Unaudited)					
	13 Weeks Ended				
(In millions)	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
Net sales	2,107	2,172	2,206	4,661	2,278
Gross margin	678	777	783	1,579	821
Selling, general, and administrative expenses	826	698	779	1,057	835
Depreciation and amortization	73	75	75	77	76
Other income, net	(20)	(38)	(17)	(35)	(59)
Operating loss	(201)	42	(54)	480	(31)
Net loss	(622)	(165)	(163)	344	(155)
Net loss attributable to Toys "R" Us, Inc.	(623)	(166)	(164)	341	(156)
Toys "R" Us, Inc. Domestic and International businesses are highly seasonal with sales highest in the fourth quarter. Results of operations depend significantly upon the fourth quarter holiday selling season.					

YOUR CHALLENGE

Since Toys “R” Us, Inc. already filed for bankruptcy and is currently liquidating its assets, your manager would like you to cover the following topics of concern and inquiry:

- Would it have been possible to predict Toys “R” Us’ decision to file for Chapter 11 Bankruptcy by interpreting their financials?
- How will bankruptcy impact the upcoming financial statements?
- Using variance analysis, when could stakeholders have begun to worry about the going concern of Toys “R” Us?

SOLUTION

Predicting Chapter 11

First, let's understand Chapter 11

- A case filed under Chapter 11 of the US Bankruptcy Code is referred to as “reorganization” bankruptcy
- A company filing Chapter 11 usually proposes a plan to keep its business alive through reorganization and pay its creditors over time

September 18, 2017 – Toys “R” Us Chapter 11 Filing Date

- More than a month prior to their quarterly filing, and well in advance of the holiday season
- Toys “R” Us said it would continue operations as normal
- “We are confident that these are the right steps to ensure that the iconic Toys “R” Us and Babies “R” Us brands live on for many generations,” said Dave Brandon, Toys “R” Us chairman and CEO

March 15, 2018 – Toys “R” Us Liquidation

- Toys “R” Us files with bankruptcy court that it must liquidate, close 735 stores and leave 33,000 people out of a job
- March 23, 2018 the start of liquidation sales

Long Term Debt Due

- In the July 29, 2017 filing, Toys R Us reported a \$3.176 billion current portion of debt due
- April 29, 2017 filing, 3-months prior, show the long-term debt totaled \$5.049 billion
- Almost 63% of long-term debt became due within the year

Holiday Season 2017 Sales

- January 28, 2017 filing of quarterly sales during the 2017 Holiday Season netted \$4.661 billion
- Gross Margin % for that same quarter was 33.88%
 - Oct. 29, 2016, prior quarter's margin was 36.04%
 - Apr. 29, 2017, following quarter's margin was 35.49%
 - In summary, while sales were HIGH for the season, they had less profit to cover other expenses

Financial Statement Impact

The following is an excerpt taken from the Management Discussion & Analysis (MD&A) section of Toys “R” Us’ October 28, 2017 quarterly filing:

Effective September 19, 2017, the Company deconsolidated Toys-Canada, as a result of its voluntary filing for reorganization under Chapter 11 of the United States Bankruptcy Code and with the Canadian CCAA. As such, amounts presented in the following analysis for “As Reported Toys “R” Us - Consolidated” exclude the operating results of Toys-Canada subsequent to September 18, 2017 in accordance with GAAP. Due to the deconsolidation of Toys-Canada, the As Reported Toys “R” Us - Consolidated operating results during fiscal 2017 are not comparable with fiscal 2016 operating results. The current fiscal year operating results exclude approximately six weeks of Toys-Canada’s operating results. Therefore, As Reported Toys “R” Us - Consolidated represents only seven weeks of Toys-Canada activity for the quarter, versus thirteen weeks of activity included in the prior fiscal year quarterly results.

Liabilities Subject to Compromise now included in Balance Sheet

TOYS "R" US, INC. AND SUBSIDIARIES	
LIABILITIES SUBJECT TO COMPROMISE	
(Unaudited)	
(In millions)	
	October 28, 2017
Debt (1)	2,750
Accounts payable	908
Deferred rent liabilities	178
Gift card liabilities	151
Self-insurance reserve	92
Due to Toys-Canada	82
Accrued interest on debt subject to compromise	19
Accrued expenses and other liabilities	169
Total liabilities subject to compromise	4,349

Liabilities subject to compromise – This amount represents the debtors' estimate of known or potential pre-petition claims to be resolved in connection with the Chapter 11 cases.

Going Concern Variance Analysis

The following is an excerpt taken from the Management Discussion & Analysis (MD&A) section of Toys “R” Us’ October 28, 2017 quarterly filing:

The Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The Condensed Consolidated Financial Statements do not reflect any adjustments that might result from the outcome of our Chapter 11 proceedings. We have significant indebtedness. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. Our financial condition including operating results, the defaults under our debt agreements, and the risks and uncertainties surrounding our Chapter 11 proceedings, raise substantial doubt as to the Company’s ability to continue as a going concern.

Balance Sheet Variances

TOYS “R” US, INC. AND SUBSIDIARIES									
CONDENSED CONSOLIDATED BALANCE SHEETS									
(Unaudited)									
(In millions)	October 28, 2017	% change	July 29, 2017	% change	April 29, 2017	% change	January 28, 2017	% change	October 29, 2016
ASSETS									
Current Assets:									
Cash and cash equivalents	432	40%	308	2%	301	-47%	566	35%	420
Accounts and other receivables	282	17%	242	6%	229	-10%	255	-15%	301
Merchandise inventories	2,912	12%	2,597	7%	2,429	-2%	2,476	-29%	3,472
Prepaid expenses and other current assets	216	93%	112	-15%	132	43%	92	-32%	135
Total current assets	3,842	18%	3,259	5%	3,091	-9%	3,389	-22%	4,328
Property and equipment, net	2,842	-6%	3,032	0%	3,030	-1%	3,067	0%	3,074
Goodwill	64	0%	64	0%	64	0%	64	0%	64
Deferred tax assets	18	-25%	24	-82%	130	1%	129	30%	99
Restricted cash	313	422%	60	7%	56	4%	54	10%	49
Other assets	183	-7%	197	-2%	201	-2%	205	-19%	252
Total assets	7,262	9%	6,636	1%	6,572	-5%	6,908	-12%	7,866
									-8%
LIABILITIES, TEMPORARY EQUITY AND SHAREHOLDERS’ DEFICIT									
Current Liabilities:									
Accounts Payable	1,153	-18%	1,404	17%	1,204	-29%	1,695	-20%	2,107
Accrued expenses and other current liabilities	460	-45%	831	9%	759	-15%	897	-6%	950
Income taxes payable	6	-45%	11	-45%	20	-26%	27	-18%	33
Current portion of long-term debt	95	-97%	3,176	1848%	163	37%	119	70%	70
Total current liabilities	1,714	-68%	5,422	153%	2,146	-22%	2,738	-13%	3,160
Long-term debt	2,844	41%	2,020	-60%	5,049	9%	4,642	-15%	5,493
Deferred tax liabilities	38	-3%	39	-49%	77	3%	75	-5%	79
Deferred rent liabilities	155	-55%	343	0%	342	0%	342	0%	341
Other non-current liabilities	161	-35%	246	-11%	277	2%	271	4%	260
Total liabilities not subject to compromise	4,912	-39%	8,070	2%	7,891	-2%	8,068	-14%	9,333
Liabilities subject to compromise	4,349	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
Temporary equity	-	#DIV/0!	-	#DIV/0!	-	-100%	132	11%	119
Total stockholders’ deficit	(1,999)	39%	(1,434)	9%	(1,319)	2%	(1,292)	-19%	(1,586)
Total Liabilities, Temporary Equity and Stockholders’ Deficit	7,262	9%	6,636	1%	6,572	-5%	6,908	-12%	7,866
									-8%

- The Current Portion of Long-Term Debt due within the year increased 1848% from the prior quarter
- In April 29, 2017, cash and cash equivalents, a large factor of company liquidity assets, decreased 47% over 3 months, and 28.3% from where the company was 6-months prior
 - Pertinent because January 28, 2017 is inflated due to holiday season cash received

Income Statement Variances

TOYS "R" US, INC. AND SUBSIDIARIES									
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS									
(Unaudited)									
(In millions)	13 Weeks Ended								
	October 28, 2017	% change	July 29, 2017	% change	April 29, 2017	% change	January 28, 2017	% change	October 29, 2016
Net sales	2,107	-3%	2,172	-2%	2,206	-53%	4,661	105%	2,278
Gross margin	678	-13%	777	-1%	783	-50%	1,579	92%	821
Selling, general, and administrative expenses	826	18%	698	-10%	779	-26%	1,057	27%	835
Depreciation and amortization	73	-3%	75	0%	75	-3%	77	1%	76
Other income, net	(20)	-47%	(38)	124%	(17)	-51%	(35)	-41%	(59)
Operating loss	(201)	-579%	42	-178%	(54)	-111%	480	-1648%	(31)
Net loss	(622)	277%	(165)	1%	(163)	-147%	344	-322%	(155)
Net loss attributable to Toys "R" Us, Inc.	(623)	275%	(166)	1%	(164)	-148%	341	-319%	(156)
Toys "R" Us, Inc. Domestic and International businesses are highly seasonal with sales highest in the fourth quarter. Results of operations depend significantly upon the fourth quarter holiday selling season.									

(reference Excel spreadsheet to show variance analysis)

- Net sales reported January 28, 2017, largely inflated by the holiday season, increased 105%
- However, from July 29 to October 28, losses increased by 275%



FINANCIAL STATEMENT ANALYSIS, 2018

Participant: _____

JUDGE EVALUATION FORM
ICDC Preliminary

Participant: _____

I.D. Number: _____

INSTRUCTIONAL AREA
Financial Analysis

Did the participant:

		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Interpret financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Describe bankruptcy prediction models?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Discuss the analysis of a company's financial situation using its financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Describe the nature of corporate bankruptcy?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Discuss the use of variance analysis in managerial accounting?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and responses to judge's questions?	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						