

BNL STORES¹

Paul Cruz wrote this case under the supervision of Professor Vaughan Radcliffe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Version: 2013-04-12

In the spring of 2010, Paul Cruz was a business student who had just started an accounting course. As an introductory assignment, his professor had given the each student the task of analyzing the financial statements of a company of their choosing.

For his analysis, Cruz selected BNL Stores because it was one of his favorite places to shop. However, recently he had read in the business press that BNL's stock had fallen dramatically, dropping from a high of \$100 per share to less than \$10, despite the fact that the company was known to pay out relatively constant dividends to its shareholders.

BNL was an established Midwestern retailer that had been in business for over 40 years. In recent times, management had undertaken a series of new business strategies, one of which was to expand the number of BNL's new supercenter stores, while phasing out the traditional discount stores. The supercenter stores carried a greater selection of durable goods, such as appliances and furniture. In order to entice customers to purchase these more expensive items, BNL had started offering store credit to its customers. Each individual store manager was responsible for authorizing the opening of store credit accounts and ultimately had the final say as to whether credit would be granted to a customer. Store managers were paid an annual bonus, based on net income for their respective store, and were known for being quite lenient in granting credit in order to increase net income for the year and, therefore, the size of their bonus.

Cruz wondered whether these new strategies were responsible for the decline in BNL's share price, which he had read about. To collect the financial statement information that he required to complete his assignment, he went to the business school library and obtained BNL's balance sheets, statements of income, and statements of cash flows for the fiscal years ending 2002 through 2007. However, for 2008 to 2010, he was able to obtain income the balance sheets and statements of income, but not statements of cash flows (see Exhibits 1, 2 and 3).

¹ *This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of BNL Stores or any of its employees.*

Armed with these financial statements and the information he had learned in the course thus far, Cruz calculated the following financial ratios (see Exhibit 4).

Question 1

Calculate the 10 ratios done in Exhibit 4 for each year from 2008 to 2010. Do you notice any trends? What insights do these trends provide into the operations of BNL?

Question 2

Following the format given in Exhibit 3, prepare statements of cash flows for BNL for each year from 2008 to 2010. Please use the following figures for the additions to property, plant and equipment:

	2008	2009	2010
(Increase) or decrease in property, plant and equipment	(177,982)	(154,747)	(97,171)

Question 3

What do the cash flow statements show? What does this mean for the future viability of the firm? How helpful is this analysis in understanding the company's stock price performance?

Exhibit 1

BNL STORES INCOME STATEMENT
(for the year ended January 31)
(amounts in 000s)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sales	\$6,258,259	\$6,659,614	\$7,424,663	\$8,235,435	\$8,536,806	\$9,344,542	\$11,176,830	\$12,568,581	\$11,974,768
Cost of goods sold	4,376,822	4,661,786	5,210,254	5,543,809	5,716,842	6,313,787	7,629,270	8,698,367	8,836,150
Gross profit	1,881,437	1,997,828	2,214,409	2,691,626	2,819,964	3,030,755	3,547,560	3,870,214	3,138,618
Operating expenses									
Amortization of property, plant and equipment	51,013	55,616	56,871	60,830	65,217	71,712	81,387	89,903	90,744
Selling, general, and administrative expenses	1,403,094	1,493,159	1,615,437	2,018,114	2,170,610	2,462,760	2,931,489	3,572,857	5,047,696
Interest expense	65,563	80,099	93,578	105,117	131,742	115,057	146,638	163,086	256,087
	1,519,670	1,628,874	1,765,886	2,184,061	2,367,569	2,649,529	3,159,514	3,825,846	5,394,527
Operating income	361,767	368,954	448,523	507,565	452,395	381,226	388,046	44,368	(2,255,909)
Other income	21,154	32,510	38,924	33,541	38,321	37,182	42,734	51,847	43,812
Net income (loss) before taxes	382,921	401,464	487,447	541,106	490,716	418,408	430,780	96,215	(2,212,097)
Provision for income taxes	168,890	177,772	230,520	257,640	222,384	179,670	174,585	22,299	(796,419)
Net Income (loss) after taxes	214,031	223,692	256,927	283,466	268,332	238,738	256,195	73,916	(1,415,678)
Dividends	95,537	97,408	139,783	133,817	141,166	143,322	143,343	143,207	30,218
Retained earnings for the year	118,494	126,284	117,144	149,649	127,166	95,416	112,852	(69,291)	(1,445,896)
Opening retained earnings	923,612	1,042,106	1,168,390	1,285,534	1,435,183	1,562,349	1,657,765	1,770,617	1,701,326
Closing retained earnings	1,042,106	1,168,390	1,285,534	1,435,183	1,562,349	1,657,765	1,770,617	1,701,326	255,430
Other Data									
Earnings per share	\$ 2.50	\$ 2.71	\$ 2.99	\$ 2.87	\$ 2.64	\$ 2.25	\$ 2.49	\$ 0.76	\$ (12.74)

Exhibit 2

BNL STORES BALANCE SHEET
 (for year ended January 31)
 (amounts in 000s)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets									
Current assets									
Cash and cash equivalents	\$254,297	\$169,819	\$192,959	\$223,584	\$230,581	\$337,990	\$209,794	\$311,548	\$539,973
Accounts receivable	747,868	904,486	1,049,741	2,496,850	2,845,776	3,246,562	3,689,622	3,684,015	2,945,781
Inventories	1,183,998	1,245,628	1,413,515	1,506,028	1,766,136	2,025,023	2,708,834	3,055,319	2,761,880
Prepaid expenses	21,059	24,239	27,940	34,151	35,568	36,463	45,073	49,487	44,687
	2,207,222	2,344,172	2,684,155	4,260,613	4,878,061	5,646,038	6,653,323	7,100,369	6,292,321
Other assets	294,245	418,814	443,934	156,449	178,436	235,591	257,382	316,972	354,350
Property, plant and equipment	325,915	322,538	333,664	375,009	419,221	523,233	619,828	684,672	691,099
Total assets	2,827,382	3,085,524	3,461,753	4,792,071	5,475,718	6,404,862	7,530,533	8,102,013	7,337,770
Liabilities and shareholders' equity									
Current liabilities									
Short-term notes payable	-	-	-	1,234,855	1,670,728	1,611,884	2,644,431	3,071,998	4,068,000
Accounts payable	452,077	511,558	654,970	641,281	708,672	783,169	707,949	711,107	876,050
Corporate income taxes payable	378,534	430,408	523,070	610,220	732,620	829,357	939,823	698,869	133,566
	830,611	941,966	1,178,040	2,486,356	3,112,020	3,224,410	4,292,203	4,481,974	5,077,616
Long term liabilities									
Long-term debt	474,600	424,577	293,242	240,026	219,001	870,769	858,836	1,280,566	1,473,538
Deferred corporate income taxes	47,691	51,196	53,840	56,186	57,752	65,522	80,858	99,320	-
Other liabilities	34,978	35,853	37,419	38,639	39,141	35,609	31,825	28,449	14,801
Shareholders' equity									
Share capital	397,396	463,542	613,678	535,681	485,455	550,787	496,194	510,378	516,385
Retained earnings	1,042,106	1,168,390	1,285,534	1,435,183	1,562,349	1,657,765	1,770,617	1,701,326	255,430
	1,439,502	1,631,932	1,899,212	1,970,864	2,047,804	2,208,552	2,266,811	2,211,704	771,815
Total liabilities and equity	2,827,382	3,085,524	3,461,753	4,792,071	5,475,718	6,404,862	7,530,533	8,102,013	7,337,770

Exhibit 3

BNL STORES STATEMENT OF CASH FLOWS
(for the year ended January 31)
(in 000s)

	2002	2003	2004	2005	2006	2007
Cash flows from operating activities						
Net Income (loss) after taxes	214,031	223,692	\$256,927	\$283,466	\$268,332	\$238,738
Adjustments for:						
Amortization of property, plant and equipment	51,013	55,616	56,871	60,830	65,217	71,712
	265,044	279,308	313,798	344,296	333,549	310,450
Changes in:						
Accounts receivable	4,326	(156,618)	(145,255)	(1,447,109)	(348,926)	(400,786)
Inventories	(157,743)	(61,630)	(167,887)	(92,513)	(260,108)	(258,887)
Prepaid expenses	(2,631)	(3,180)	(3,701)	(6,211)	(1,417)	(895)
Accounts payable	51,291	59,481	143,412	(13,689)	67,391	74,497
Corporate income taxes payable	130,562	51,874	92,662	87,150	122,400	96,737
Deferred corporate income taxes	5,187	3,505	2,644	2,346	1,566	7,770
	30,992	(106,568)	(78,125)	(1,470,026)	(419,094)	(481,564)
Net cash from operating activities	296,036	172,740	235,673	(1,125,730)	(85,545)	(171,114)
Cash flows from investing activities						
(Increase) or decrease in property, plant and equipment	(103,240)	(52,239)	(67,997)	(102,175)	(109,429)	(175,724)
Proceeds from sale of (acquisition of) other assets	(16,726)	(124,569)	(25,120)	287,485	(21,987)	(57,155)
Net cash from investing activities	(119,966)	(176,808)	(93,117)	185,310	(131,416)	(232,879)
Cash flows from financing activities						
Proceeds from (repayment of) notes payable	-	-	-	1,234,855	435,873	(58,844)
Proceeds from (repayment of) long-term debt	-	(50,023)	(131,335)	(53,216)	(21,025)	651,768
Proceeds from (repayment of) other liabilities	2,542	875	1,566	1,220	502	(3,532)
Proceeds from issuing (repurchase of) share capital	18,272	66,146	150,136	(77,997)	(50,226)	65,332
Dividends paid	(95,537)	(97,408)	(139,783)	(133,817)	(141,166)	(143,322)
Net cash from (used in) financing activities	(74,723)	(80,410)	(119,416)	971,045	223,958	511,402
Net increase (decrease) in cash and cash equivalents	101,347	(84,478)	23,140	30,625	6,997	107,409
Opening balance, cash and cash equivalents	152,950	254,297	169,819	192,959	223,584	230,581
Closing balance, cash and cash equivalents	254,297	169,819	192,959	223,584	230,581	337,990

Exhibit 4
BNL STORES FINANCIAL RATIOS

	2002	2003	2004	2005	2006	2007
Profitability ratios						
Net profit margin	3.42%	3.36%	3.46%	3.44%	3.14%	2.55%
Return on equity	14.87%	13.71%	13.53%	14.38%	13.10%	10.81%
Return on assets	8.87%	8.70%	8.85%	7.06%	6.22%	4.75%
Turnover ratios						
Days receivables	43.62	49.57	51.61	110.66	121.67	126.81
Inventory turnover	3.70	3.74	3.69	3.68	3.24	3.12
Total asset turnover	2.21	2.16	2.14	1.72	1.56	1.46
Liquidity ratios						
Current ratio	2.66	2.49	2.28	1.71	1.57	1.75
Quick ratio	1.21	1.14	1.05	1.09	0.99	1.11
Solvency ratios						
Debt to equity ratio	0.96	0.89	0.82	1.43	1.67	1.90
Debt to capitalization ratio	0.58	0.52	0.39	0.38	0.39	0.64