

Balance Sheet Detective

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This case was written by Elizabeth Demers, Assistant Professor of Accounting and Control at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Exhibit 1 shows the common-size, fiscal year 2005 balance sheets of 9 companies operating in different industries and headquartered in various countries, as described below. Use your economic intuition and the financial information cues provided in the common-size balance sheets to match the companies and industries described below with those depicted in the exhibit.

EDF (France)

Electricité de France (EDF) is a large French utility company that was recently privatized via an initial public offering. The company's principal activity is the generation, transmission, distribution, import and export of electricity and other forms of energy. The Group has operations in France, United Kingdom, Spain, Belgium, Switzerland, Germany, Poland, Italy, Slovakia, Hungary, US, Mexico, Morocco, China, Brazil, Ivory Coast, Laos, Vietnam and South Africa.

Google (USA)

Google is a profitable, cash flow positive internet company whose principal activity is to provide advertising solutions, global internet search solutions through its internet site, and intranet solutions via an enterprise search appliance. It maintains an online index of websites and other content. Trademarks include Google, AdSense, AdWords, I'm Feeling Lucky, PageRank and Keyhole, Blogger, Orkut.com, Froogle, Gmail and Picasa.

HJ Heinz (USA)

Heinz is a company with a long history of profitability whose principal activity is to manufacture and market processed food products. Their products include ketchup, condiments, sauces, frozen food, soups, beans, pasta meals, infant foods and other processed foods. The products are marketed by, and distributed to, grocery stores, pharmacies, mass merchants, club stores, foodservice distributors, hotels, restaurants and government agencies. Heinz also owns or leases office space, warehouses, distribution centres, as well as research and other facilities. Major trademarks include Heinz, Classico, Farex, Ore-Ida, Boston Market, Smart Ones and Plasmon. Heinz has operations in North America, Europe, Asia Pacific and Africa, and they have grown their US domestic and international presence through aggressive acquisitions of world leading condiment brands. In recent years Heinz has used their excess cash to engage in a considerable amount of share buybacks.

InBev SA (Belgium)

InBev was formerly known as Interbrew SA. The Group's principal activities are the production and distribution of beer. The Group has developed and/or acquired over 200 global brands, including Becks, Stella Artois, Leffe, Hoegaarden, Staropramen and Bass. It employs nearly 70,000 people in 30 countries across the Americas, Europe and Asia Pacific.

Jerini AG (Germany)

Jerini is a young biotech firm that recently undertook an initial public offering. The Company's principal activity is the discovery and development of novel peptide-based drugs. It operates through two business segments, Jerini Pharma and Peptide Technologies. The Jerini Pharma segment is engaged in the discovery and development of targeted therapeutics for hereditary angioedema, liver cirrhosis, cancer and inflammatory diseases. The Peptide Technologies segment serves the life science industry and research community by producing custom and catalogue peptides using its integrated array-based technology platforms.

Mittal Steel NV (the Netherlands)

The principal activity of Mittal Steel is the production of steel. They have operations in the United States, Mexico, Trinidad, Canada, Germany and France. Mittal specializes in the integrated mini-mill process and has a wide range of flat and long steel products. They produce a broad range of coated, cold rolled and hot rolled products and high quality wireless rods. During 2004 Mittal acquired LNM Holdings. They subsequently merged with International Steel Group and changed their name from Ispat International NV to Mittal Steel Company NV. At the time of this case, there was a glut on the worldwide steel markets.

Thai Airways International (Thailand)

Thai Airways' principal activity is the operation of domestic and international aviation services. This includes support services such as freight forwarding, warehousing, on-line ticketing, hotel and restaurant operations, fuel storage and filling for aircraft at the airport.

Telekom Malaysia Berhad (Malaysia)

Telkom Malaysia's principal activities are the establishment, maintenance and provision of telecommunication and related services under a license issued by the Minister of Energy, Water and Communication. Other activities include software development and sales, consultancy and engineering services, interactive multimedia communication services and solutions, printing and publications services, research and development activities, development, operation and marketing of e-commerce services, the implementation of government school projects, and the provision of multimedia education systems and software. Operations are carried out in Malaysia and other countries.

TransCanada (Canada)

TransCanada's principal activity is to transmit natural gas and power generation. They operate in two business segments: gas transmission and power. The gas transmission segment provides natural gas transmission from Western Canada to the rest of Canada and the United States, and investigates and develops new natural gas transmission, storage and liquefied natural gas regasification facilities in Canada and the United States. The power segment builds, owns and operates electrical power generation plants, and markets electricity.

Exhibit 1
Common-Size Balance Sheets

	A	B	C	D	E	F	G	H	I
Cash & ST Investments	11%	7%	4%	1%	5%	78%	93%	17%	4%
Total Receivables	12%	8%	11%	4%	12%	7%	2%	8%	8%
Other Current Assets	1%	4%	0%	1%	2%	3%	1%	0%	5%
Total Inventories	<u>4%</u>	<u>20%</u>	<u>4%</u>	<u>1%</u>	<u>13%</u>	<u>0%</u>	<u>0%</u>	<u>1%</u>	<u>2%</u>
Total Current Assets	28%	39%	19%	7%	32%	88%	96%	26%	20%
Intangibles	5%	5%	54%	4%	46%	3%	0%	18%	0%
Other LT Assets	7%	5%	0%	0%	0%	0%	0%	0%	0%
Property Plant & Equipt - Gross	112%	65%	65%	135%	44%	14%	9%	132%	139%
Property Plant & Equipt - Net	<u>60%</u>	<u>51%</u>	<u>27%</u>	<u>89%</u>	<u>22%</u>	<u>9%</u>	<u>4%</u>	<u>56%</u>	<u>80%</u>
Total Assets	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Accounts Payable	5%	8%	15%	6%	11%	1%	7%	8%	3%
ST Debt & Current LT Debt	7%	1%	5%	6%	5%	0%	0%	3%	6%
Other Current Liabilities	<u>11%</u>	<u>9%</u>	<u>2%</u>	<u>1%</u>	<u>8%</u>	<u>6%</u>	<u>7%</u>	<u>7%</u>	<u>17%</u>
Total Current Liabilities	23%	18%	22%	13%	24%	7%	15%	18%	26%
Other LT Liabilities	51%	18%	9%	8%	12%	1%	6%	1%	2%
LT Debt	<u>14%</u>	<u>26%</u>	<u>19%</u>	<u>46%</u>	<u>39%</u>	<u>0%</u>	<u>0%</u>	<u>25%</u>	<u>46%</u>
Total Liabilities	88%	61%	50%	67%	75%	8%	21%	44%	74%
Common Stock	5%	14%	35%	24%	-25%	73%	118%	22%	14%
Retained Earnings	<u>7%</u>	<u>25%</u>	<u>16%</u>	<u>9%</u>	<u>49%</u>	<u>19%</u>	<u>-38%</u>	<u>34%</u>	<u>11%</u>
Total Liab & Shareholders' Equity	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>