# Pepsi co bid for quaker oats

Finance

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The current ratio shows the ability of a company to pay off its short term debt. A current ratio should exceed the 0 threshold to be considered sound. A company that has a low current ratio is at risk of defaulting of its debt. The formula to calculate current ratio is current assets divided by current liabilities. In 2000 Pepsi had a current ratio of 1. 16, while Quaker had a current ratio of 1. 15 in the same time period. Both companies have acceptable current ratio results. The quick ratio is more stringent short term liquidity metric. It is calculated in the same manner as the current ratio with the difference being that inventory is subtracted from current assets. The quick ratio of Pepsi in 2000 was 0. 89. Quaker had a quick ratio of 0. 87 in fiscal year 2000.

Gross margin is a financial metric that measures the broad profitability of a company. Pepsi had a gross margin in 2000 of $8, 595 million. Its gross margin percentage was 61. 27%. Quaker in 2000 had a gross margin of $2, 240 million with a gross margin percentage of 55. 37%. Pepsi’s gross margin percentage is better than Quaker by 5. 89% which implies that its broad profitability is superior. During 2000 Pepsi had a net income of $1, 572 million, while Quaker had a net income of $309 million. The net margin measures the absolute profitability of a firm. The formula to calculate net margin is net income divided by sales. Pepsi’s net margin in fiscal year 2000 was 11. 21%. Its net margin is better than Quaker’s 7. 64% result. Return on assets (ROA) measures how well management has employed its assets (Garrison & Noreen, 2003). Pepsi’s return on assets of 8. 90% is inferior to Quaker’s metric of 12. 30%.

The ratio analysis performed on these two companies’ shows mixed results. The short term liquidity of these two companies is similar with Pepsi holding

a minor edge of 0. 01 and 0. 02 in the current and quick ratio. The broad profitability of Pepsi is better, but the absolute profitability of Quaker is superior. The return on assets of Quaker is much better than Pepsi. Overall based on the ratio analysis Quaker had a better financial performance than Pepsi. The acquisition of Quaker by Pepsi makes sense from a financial standpoint. Buying Quaker will not impose any constraint in the liquidity position of the firm since both companies had similar current asset and quick ratio results. The profitability of Pepsi will be enhanced by the acquisition due to the fact that Quaker's net margin and return on assets was superior to Pepsi. From a marketing standpoint Pepsi also stands to benefit. Buying Quaker implies that Pepsi by default will acquire new product brands that will enhance the product offering the firm offers to its customers. In terms of operational factors synergies will be created by the two companies joining forces since both firms participate in the food industry. The supply chain of both companies will also be enhanced once Pepsi buys Quaker.