

Chuck e cheeses



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Chuck E. Cheese's "Where A Kid Can Be A Kid" Yvonne Bell-White The Catholic University of America This paper was prepared for Financial Decision Making, MBU 652, Summer 2011, taught by Professor Howard S. Steed, PhD

Abstract In this analysis paper I choose to learn about Chuck E. Cheeses. I demonstrate my understanding of the categories of Financial Statement Analysis, which includes - profitability, liquidity, activity and debt (leverage). Our class was assigned a company for financial scrutiny and to obtain financial statements (Balance Sheet, Income Statement, and Cash Flow Statement), from the company's most recent Annual Report.

We are to prepare a written analysis of the organization with the following requirements: 1) describing the product or service marketed by the company; 2) evaluate the company in terms of the financial ratios we believe are most helpful in understanding the company's performance; and 3) include a financial forecast for the said company for the next 2-3 years. We were asked to include an estimate of the company's prospects for the company industry for the years ahead. Finally, the students were asked to give an oral presentation to the class using this information. I choose to do my analysis of a company called Chuck E.

Cheese's. This paper will explain what I've learned about the financial statement analysis categories. Chuck E. Cheese's "Where A Kid Can Be A Kid" This class was assigned a company for financial scrutiny and to obtain financial statements (Balance Sheet, Income Statement, and Cash Flow Statement), from the company's most recent Annual Report. We are to prepare a written analysis of the organization with the following requirements: 1) describing the product or service marketed by the

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Cheese Pizza-Time Theaters. It's a nationally recognized leader in family dining and entertainment. Chuck E Cheese's is located in 48 states and seven foreign countries or territories. Each store feature musical and comic entertainment by robotic and animated characters, arcade-style and skill-oriented games, rides and many other activities to appeal to families and children between the ages of two to twelve. Chuck E. Cheese stores offers a variety dining selection consisting of pizza, sandwiches, salad bar and desserts.

There business development strategy is focused on maintaining and evolving their existing stores, by developing high sales volume company-owned stores in primarily densely populated areas and selling franchises in domestic and international markets. Chuck E Cheeses are typically opened in shopping centers or free standing buildings near shopping centers As of January 2, 2011, they employ approximate 17, 300 employees - 17, 000 field based and 300 located at the headquarters. Before investing into a company you should follow expert's advice.

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Experts insist on the importance of research and doing your homework before you decide to invest in a company. In other words, dig deep into the company's financial statement and examine everything from the auditor's report to the company's references. Begin your homework by doing a Financial Statement Analysis. The financial statement analysis is how you will identify the company's financial strengths and weaknesses from understanding the items of the balance sheet. The categories of the financial statement analysis are: Profitability, Liquidity, Activity and Debt (Leverage).

Profitability can be expressed as a group of financial metrics used to measure a company's ability to make a profit as compared to its expenses, including costs acquired during a particular period of time. In doing my homework on my company, Chuck E. Cheese's, I began with Profitability from the categories on the financial statement analysis, and continued to move through the other categories – Liquidity, Activity and Debt (Leverage). PROFITABILITY Profitability: return on assets (ROA); return on equity (ROE), price/earnings ration (P/E ration), dividend yield and dividend pay-out ration.

Return On Assets (ROA) determines the effectiveness with which a company distributes and manages its resources. ROA is expressed as net income divided by the average total assets. The return on assets for Chuck E. Cheese's is 7%. The amount of net income returned as a percentage of shareholders equity. Return On Equity (ROE) determines a company's profitability by showing how much profit a company makes with the money shareholders have invested. Therefore the Return on Equity (ROE) is expressed as a percentage and calculated as the net income/average owners' equity. The return on equity for Chuck E Cheese's is 33%

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Assessing the ratio of a company's current share price compared to its per-share earnings is called the Price/Earnings Ratio (P/E Ratio) and is calculated as the market price of common stock divided by the earnings per share and the P/E Ratio for Chuck E. Cheese's is . 15%. The Dividend Yield is a way to compare the attractiveness various dividend paying stocks. The dividend yield advises an investor the yield he/she can look forward to if he/she purchases stock from the company. To calculate the dividend yield, divide the annual dividend per share by the market price per share.

Chuck E Cheese's did not have the figures written in its annual report to perform calculations. The Dividend Pay-Out Ratio tell how well a company's earnings supports the dividend payments. It is calculated by dividing the annual dividend per share by the earnings per share. Chuck E Cheese did not have the figures written in its annual report to perform calculations

LIQUIDITY One determinant of a company's debt capacity is the liquidity of its assets. An asset is liquid if it can be readily converted to cash, while a liability is liquid if it must be repaid in the near future.

Liquidity is the company's working capital, current ration and acid-test ration. The components of Liquidity are Working Capital, Current Ratio and Acid Test Ratio. The Working Capital measures both the company's effectiveness and it's immediate financialhealth. The working capital ration is calculated by subtracting the current assets from the current liabilities. The Working Capital for my company is \$-17, 210. A positive working capital means that the company will be able to pay its short-term liabilities. A negative working capital means a company can not pay its short-term liabilities.

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The Current Ratio is used to provide an idea of the company's ability to pay back its short-term liabilities. To calculate the current ratio you would divide the current assets by the current liabilities. Chuck E. Cheese's current ratio is .98. A high ratio indicates a company can pay its obligations. But on the other hand, if the current ratio is under 1, the company would not be able to pay its obligations. The Acid-Test Ratio serves as a sign that help determine whether a company has enough short-term assets to cover the company's immediate liabilities without selling its inventory.

The acid-test ratio is calculated by cash, plus accounts receivable divided by current liabilities. The acid-test ratio for Chuck E. Cheese's is 58%. If the ratio is less than 1 a company cannot pay their current liabilities and should be looked at with extreme caution. **ACTIVITY MEASURES** The Activity Measure measures the volume of activity and is used as a basis for allocating costs. To activity measure includes Accounts Receivable Turnover and Inventory Turnover. The Accounts Receivable Turnover (A/R) ratio is the number of times that accounts receivable amounts are collected within the year.

If the A/R Turnover is high the company has a tight credit policy. If the A/R Turnover is low it says the company has a collection problem. To calculate the A/R Turnover – divide the sales by the average A/R. The A/R Turnover for Chuck E Cheese is 27.57 The Inventory Turnover the Cost of Goods Sold (COGS) divided by the Average Inventory. This shows how many times a company's inventory is sold and replaced over a period of time. The Inventory Turnover for my company Chuck E. Cheese's is 53.44 (number of days for

turnover) DEBT (Leverage) The Debt (Leverage) includes the categories of Debt Ratio and Debt/Equity Ratio.

The Debt Ratio explains what part of a company's debt has relative to its assets. It gives an idea of leverage and the potential risks the company could face. To calculate the Debt Ratio divide the total liabilities by the total liabilities plus owners' equity. The Debt Ratio for Chuck E. Cheese's is 79. The Debt/Equity Ratio can be calculated by dividing the total liabilities by the total owners' equity. The Debt/Equity Ratio for Chuck E. Cheeses' is . 39. The Debt/Equity Ratio measures a company's financial leverage and says what proportion of equity and debt the company is using to finance its assets.

Chuck E. Cheeses have an opportunity to further expand globally. They have formalized a strategic plan for international growth and are actively seeking franchise partners in key Latin American countries including Argentina, Brazil, Columbia, Costa Rica, Mexico and Panama. As with any company, doing your research and homework before investing is very important. I enjoyed learning about Chuck E Cheese finance and look forward to maybe one day owning my own franchise. After my research I have new idea for expansion and one day hope to invest.