Nyse:kkd, a case study of krispy kreme doughnuts inc. financial statements

Education

Krispy Kreme Doughnuts was formed in 1933 when Vernon Carver Rudolph bought a doughnut shop in Kentucky. By 1937 the business had branched into a wholesale operation, supplying local grocery stores. Today, the business is owned by Krispy Kreme franchises and there are approximately 449 factory stores throughout the world.

Krispy Kreme first floated on the NASDAQ in 2000 and, with a share price of $40. 64, immediately gained a market capitalization of $500 million. A year later they switched to the NYSE where they now trade under the ticker symbol KKD.

In order to perform a financial analysis of Krispy Kreme we will utilize three main financial statements; the income statement, the statement of cash flow and the balance statement.

The Income Statement, or profit and loss statement, will allow us to observe how much profit has been generated by KKD and will allow us to observe how profitable the business is. Whereas the income statement reports the results from operating the business over a given period of time, the balance sheet provides a picture of the firm’s value at a snapshot period in time by presenting details of its assets, liability and owner equity.

Whilst an income statement reports a company’s profits this is not actually the same as their cash flows. It is therefore important that we also look at this when analyzing the financialhealthand wellbeing of a company. By looking at the free cash flows we are able to observe how much cash is available to the company after they have paid for their investments in operating capital and fixed assets. The free cash will be the amount that is available to redistribute to the owners and creditors.

The financial reports for Krispy Kreme between the years 2005 and 2007 can be found in Appendix A. At first glance it is evident that a has been made over the last three years since their 2005 filing. This could be potentially attributed to their rapid growth and extension that has necessitated large investments in property, plant, equipment and investments in equity method franchises. The losses, however, have reduced from $7. 2 million in 3rd quarter 2006 to $798 in the 3rd quarter of 2007 that could indicate an improvement.

The operating income, excluding the $21. 05 million in depreciation, of Krispy Kreme at the end of the 3rd quarter 2007 was $22. 11. The company has reported an investment of 12. 63 that their annual report (www. krisykreme. com) attributed to the sale of property and the reacquisition of some of the franchises. In addition to this KKD retired some of their long debt leading to a net loss of $15. 48 in financing activities.

The statement of cash flows reveal a net credit to impairment and lease termination of $268, 000 in the 3rd quarter of 2007, a huge shift from the charge of $5. 4million of 3rd quarter 2006. Clearly in the latter stages of 2006 a number of stores were closed or the franchises were terminated. The third quarter 2007 balance sheet shows that KKD had cash of $23 million and a debt of $88 million.

In order to fully understand KKD’s position in the market we need to understand the data in relative terms, i. e. how is KKD performing in comparison to their competitors or similar companies. An analysis of KKD's financial rations provides us with further insight into their operations and can allow us to better highlight their strengths and weaknesses. The debt ratio indicates how much debt KKD are using tofinancetheir assets. KKD's debt ratio discloses that the company has a debt level that matches their level of assets. This is clearly bad news.

Furthermore they have negative earnings per share ratio of -5. 45. This EPS ratio is significantly below the industry average of -2. 75 will entail that it will be extremely difficult to attract new investors as they are unable to offer earnings on the investment, at the moment they are offering a loss. In addition to this, if the company financials do not pick up and they are forced to default there will be no return for the investors at all.

The Return on Sales ratio is currently at . 39. This is also below the industry average. Such a low ratio indicates that the sales are not equivalent to the company's current operating expenses.

However, on a positive note, the Current Ratio (an indication of the firm's liquidity as measured by its liquid assets) of 1. 71 shows some recovery and demonstrated that KKD have the resources to meet short-term obligations.

One potential source of this could be cash generated by financing activities that can help to offset the unrewarded investments in finance acquisitions. However, this is a short-term option and will not significantly offset investors concerns.

KKD currently has a quick inventory turnover and averages 20 days. This indicates that the company is managing their inventory well and is running an efficient operation with minimal waste. In addition to this the turnover in receivable is 8 – 11 days which is much lower than one of their major competitors; Starbucks. Their accounts payable turnover is also high relative to Satrbucks but this is probably a direct outcome of their franchise model.

KKD as an investment has received a great deal of negative publicity recently and this will undoubtedly have impacted their share price. Accusations relating to their accounting practices and the potential over inflation of profit levels will undoubtedly have lowered investor's confidence in the company and has also triggered a number of lawsuits.

Through analyzing their current financial status and taking into consideration their ongoing issues with the SEC, I would not invest in this company.

Reference Page

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