Tootsie roll loan package

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According to " Tootsie Roll Industries: Company Information" (2013), " Tootsie Roll Industries, LLC is America's favorite candy company; manufacturing and selling some of the world's most popular confectionary brands. Beginning in a modest New York candy store with the Tootsie Roll's introduction in 1896, the Chicago-based company has grown to become one of the country's largest candy companies, with operations throughout North America and distribution channels in more than 75 countries" (para. 1-2). Tootsie Roll Industries, LLC would like to secure a loan that will help the company to increase their liabilities by 10 percent.

Team D researched loan packages and creditors require that Income Statements, Retained Earnings Statements, Balance Sheets, and the Cash Flows Statements be included in the package. A loan package has been assembled that includes the financial statements and the information obtained from researching loan packages. The loan package also includes Liquidity Ratios, Profitability Ratios, Solvency Ratios, and explanations for each ratio to assure the creditors will see how creditable the company and providing the financial evidence needed to determine whether the company is a low risk investment. The ratios show all dollar amounts in thousands except for the Earnings per Share.

Liquidity Ratios

Shown here are the Current Ratio and working capital for Tootsie Roll Industries, once the loan is granted the improvements made throughout the company will increase working capital improving the current ratio and prove the company to be fully capable of paying back the short-term loan on time. Multiple liquidity ratios shown below support the above statements.

Working Capital = Current Assets - Current Liabilities

2007

$198, 150 - $57, 972 = $140, 178

2006

$188, 713 - $61, 204 = $127, 509

Current Ratio = Current Assets/Current Liabilities

2007

$198, 150/ $57, 972 = 3. 42 to 1

2006

$188, 713/ $61, 204 = 3. 08 to 1

Current Cash Debt Coverage Ratio = Cash Provided by Operations/Average Current liabilities

(Average current liabilities = $174, 495+$160, 958/2 = $167, 726. 50)

$90, 064/$167, 726. 50 = 53. 70%

Inventory Turnover Ratio = Cost of goods sold/Average Inventory

(Average inventory = $57, 402+$63, 957/2 = $60, 679. 50)

$327, 695/$60, 679. 50 = 5. 4 times

Days in Inventory = 365days/Inventory Turnover Ratio

365days / 5. 4 = 68 days in inventory

Receivables Turnover Ratio = Net credit sales/Average net receivables

(Average net receivables = $35, 284+ $39, 007 = $74, 291/2 = $37, 145. 50)

$492, 742/$37, 145. 50 = 13. 27

Average Collection Period = 365days / Receivables Turnover Ratio

365days / 13. 27 = 27. 5 days to collect

Solvency Ratios Solvency ratios are used to measure the overall longevity of the company and the likelihood of the company's survival. Solvency can also be viewed as survival assuring the company is capable of paying interest as it comes due and to repay the loan balance at maturity.

Debt to total assets ratio = Total liabilities/Total assets 2007 - $174, 495/812, 725 = 21. 47% 2006 - $160, 958/791, 639 = 20. 33% Cash Debt Coverage Ratio = Cash Provided by Operations / Average Total Liabilities $90, 064 / $167, 726. 50 = 53. 70% Free Cash Flow = Cash Provided by Operations - Capital Expenditures - Cash Dividends $90, 064 - $14, 767 - $17, 542 = $57, 755

Profitability Ratios

Elmerraji (2012), " Profitability ratios are used to give us an idea of how likely it is that a company will turn a profit, as well as how that profit relates to other important information about the company" (para. 4). These ratios will identify revenue levels and dividends for investors. The below profitability ratios are done to assist with analyzing whether or not to invest in a company.

Gross profit rate= Gross Profit/Net Sales

(Gross Profit = Sales Revenue - Cost of Goods sold $492, 742 - $327, 695 = $165, 047)

(Gross profit rate = gross profit / Total Revenues)

$165, 047 / $492, 742 = 33. 50

Profit margin= Net Income / Net Sales

$51, 625 / $492, 742 = 10. 477 or 10. 48 %

Return on assets ratio (ROA)= Net Income / Net Assets

$51, 625/$812, 725 = 6. 352 or 6. 35 %

Asset turnover ratio= Net Sales / Average Total Assets

(Average Total Assets = $812, 725 + $791, 639 / 2 = $802, 182)

$492, 742 / $802, 182 = 0. 61

Payout ratio= Cash Dividends Declared on Common Stock / Net Income

$17, 542 / $51, 625 = 33. 9 or 34%

Purpose of the Loan Although Tootsie Roll generates half a billion dollars a year, granting the loan will allow the company to increase their liabilities by 10 percent as well as maintain its title as the " world's largest candy producer" (Tootsie Roll Industries, 2013). The requested loan will need to be secured to assure Tootsie Roll will increase the liabilities by 10%. This loan will be used to streamline production and allow the company to run more efficiently. A major goal in securing this loan will be to become more environmentally friendly. Tootsie Roll will build a new factory that will not

only be able to manufacture all of its current products but one that will also be completely “ green”.

This will require all new equipment. This equipment will make the factory completely computerized. Due to computerized equipment and more robotic systems, wages and salaries will be decreased. For over 100 years, Tootsie Roll has been a leader in confectionary and they wish to continue to not only provide quality products to their customers but they also want to be environmentally conscience.

Conclusion

Securing the loan will allow Tootsie Roll Industries, LLC to reach the desired goals of increasing their liabilities by 10 percent and invest in an eco-friendly building. The liquidity, solvency, and profitability ratios provide a clear breakdown of the current internal and external financial status of the company. With the financial background given as well as assets on hand it is clear that the loan will be maintained and paid back in full on the maturation date of the loan.