BUS 110 Reading a Financial Statement Sample Report

**Company: Sears Holding Company (Symbol: SHLD)**

Sears is a major retailer it operates two major segments: K-Mart and Sears. The Kmart segment operates retail stores that offer a range of products, including consumer electronics, seasonal merchandise, outdoor living, toys, lawn and garden equipment, food and consumables, and apparel; and in-store pharmacies. It provides merchandise under the Jaclyn Smith, Joe Boxer, and Alphaline labels; Sears brand products, such as Kenmore, Craftsman, and DieHard; and Kenmore-branded products. As of October 31, 2015, this segment operated approximately 952 Kmart stores. The Sears Domestic segment operates stores that provide appliances, consumer electronics/connected solutions, tools, sporting goods, outdoor living, lawn and garden equipment, apparel, footwear, jewelry, and accessories, as well as automotive services and products, such as tires, batteries, and home fashion products. *(note you can find much of this information on the profile tab of yahoo finance)*

**Sears Holding Revenue Trend (found on the income statement)**

Sears has seen a steady decline in revenue. 2016 revenues compared to 2015 revenue declined about 20%. This represents a very significant decline in revenue.

Provide from information only not needed on your report: Calculation of 20% decline: ((25.1-31.2)/31.2) x 100

|  |  |  |
| --- | --- | --- |
| **2016 Revenue** | **2015 Revenue** | **2014 Revenue** |
| $ 25.1 B | $ 31.2 B | $ 36.2 B |

**Sears Holding Income or Profit Trend (found on the income statement)**

Sears has lost over 1 Billion dollars each of the past 3 years. This represents an unprofitable company. Although loss is slightly less in 2016 vs. 2015 it still lost over $1B, not a very healthy company from a profitability viewpoint.

Note brackets in accounting indicate a loss.

|  |  |  |
| --- | --- | --- |
| **2016 Net Income** | **2015 Net Income** | **2014 Net Income** |
| $ (1.1) B | $ (1.7) B | $ (1.4) B |

**Sears Holding Return on Sales (calculated from items on the income statement.**

Sears return on sales is about negative 4%, meaning for each dollar of sales Sears income is a negative 4 cents. This is not a good sign of profitability, the average company makes between 3-5 cents on each dollar of sales, or a Return on sales of 3-5%.

Provide from information only not needed on your report: Calculation Net Income / Revenue

|  |  |  |
| --- | --- | --- |
| **2016 ROS %** | **2015 ROS %** | **2014 ROS %** |
| * 4% | * 5% | * 4 % |

Overall Sears’s income statement indicates the firm is in poor financial health.

**Sears Holding Balance Sheet**

The balance sheet consists of Assets (items the firm owns), Liabilities (items the firm owes), and Stockholders equity (the difference between Assets less liabilities). The three year trend is provided below. Sears currently has a negative stockholders equity, they owe more than they own. This is not the ideal situation, plus the trend over the past 3 years is not favorable.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016** | **2015** | **2014** |
| **Assets** | $ 11.3 B | $ 13.2 B | $ 18.3 B |
| **Liabilities** | $ 13.3 B | $ 14.1 B | $ 16.5 B |
| **Stockholder Equity** | $ (2.0) B | $ (0.9) B | $ 1.8 B |

**Sears Holding Ability to Paid Current Debts (found on balance sheet)**

The current assets are slightly higher than the current liabilities so Sears is in fair position to pay its current debts. The ratio between current assets to current liabilities of is greater than 1 meaning Sears has more in current assets than it currently has in current liabilities.

*Note : truth is much of Sears’s current assets are in inventory which is which may not be easily converted into cash however I would not expect students to go into that depth for this assignment.*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016** | **2015** | **2014** |
| **Current Assets** | $ 6.0 B | $ 5.9 B | $ 8.9 B |
| **Current Liabilities** | $ 5.4 B | $ 5.6 B | $ 8.2 B |
| **Ration (CA/CL)** | 1.1 | 1.1 | 1.1 |

**Sears Holding Cash Flow (found on Cash Flow statement)**

Sears is currently not generating any cash from operations, which is a grave situation. Because Sears is not generating cash for operations it must survive by financing (mostly borrowing in this case) and investments (selling off its assets). Note even though Sears net or total cash flow was zero it would not be viewed as great news since none of the cash came from its operations.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016** | **2015** | **2014** |
| Cash from Operations | $ (2.2) B | $ (1.4) B | $ (1.1) B |
| Cash from Investments | $ 2.5 B | $ 0.3 B | $ 0.7 B |
| Cash from Financing | $ (0.3) B | $ 0.3 B | $ 0.9 B |
| Total Net Cash Flow | $ 0 B | $ (0.8) B | $ 0.4 B |

**Overall Financial Health of Sears**

Sears overall financial health is poor. The firm’s revenues are declining at about 20% per year. The firm does not operate at a profit. The firm is unable to generate cash from its operations.