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ACCOUNTING ANALYSIS OF TWO COMPANIES

Stijn Knoetsen

Degree in Tourism

Faculty of Tourism

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Abstract

The follow thesis analyses the financial-economic perspective of three consecutive years of Starbucks and Dunkin' Donuts, two companies of the same sector. This analysis consists out of an individual analysis, a comparative analysis, and an analysis with their sector.

1. Introduction

I would like to start my bachelor thesis explaining why I chose this subject. In my second year of Tourism, I followed the course "Contabilidad II" taught by" Oscar Chacón" and it clicked with me. Since then, my objective has been to steer my professional career towards accountancy, which has led to this moment.

2. Objectives

My objectives for this paper are to realise a financial analysis of two companies belonging to the same sector, this being the fast-food sector. These companies will be Starbucks and Dunkin Donuts.

Both companies will be analysed in two different ways. A proportional analysis of the financial statement (vertical analysis) of each company and we will use these to compare them to two previous years (horizontal analysis). Afterwards I will analyse their performance with the help of 4 different types of ratios. To follow up I will compare these to their sector to analyse the position of both these companies compared to their competitors. Ultimately, from the perspective of an investor.

3. Limitations

1. Even though Starbucks has an annual report of 2020, Dunkin Donuts Group has not. Thus, I will be using the annual reports of 2017 to 2019 of both companies.
2. Starbucks annual accounts are recorded from September to September while Dunkin Donuts Group INC are recorded from December to December. I counted them both as annual accounts for the same year.
3. Dunkin Donuts Group INC. account where in *thousands* and I changed them to *millions* to have the same amounts as Starbucks.
4. Both companies followed a different annual report. Thus, I decided to make a common balance sheet and income statement for both companies to be able to analyse them in the same manner.
5. Due to not finding trustworthy information on the fixed and variable costs of both companies I assumed that the fixed costs of both companies are around the same costs as the "other expanses" and the variable costs the sum of the "costs of sales and financial performance). Using as reference for the fixed costs 2017.

6. For the sector analysis I decided to use the information given by *Banco de España*, which is the database from Spain, recommended by my Thesis supervisor.

4. Methodology

For my methodology I will be using ratio analysis. The reason being, to obtain "a quantitative method of gaining insights into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement". (Bloomenthal, 2020)

This way it is possible to analyse two companies of different sizes while still having similar results because they are proportional to the size of the company. I will explain each ratio that will be used to analyse the financial-economic situation of both companies. Each ratio will represent a different aspect of a company which will give us a better perspective on the company's financial situation.

4.1. Solvency ratio

To explain the solvency ratios, I will divide them into two different sections: long term and short term. I chose this distinction because I argue that they explain concepts solely for that section. For example, the bankruptcy ratio is only helpful to analyse long term solvency and is not very useful for the short term.

To understand the solvency ratio, we must first understand what solvency means. We can define solvency as a measure of a company's economic health, meaning its ability to pay long-term financial obligations. It is a way to analyse a company's ability to manage its operations in the future. (Hayes & Young, 2020)

<u>Long-term solvency ratios:</u>

Solvency ratio: Total active/total passive

The higher the ratio the less possibilities of financial bankruptcy. This means that the company has a better ability to manage its future operations without being at risk of going bankrupt. On the other hand, if the ratio is lower than 1 (or 100%) the company is in technical bankruptcy. Being in a technical bankruptcy is not the same as being bankrupt, some sectors work in a technical bankruptcy due to the time they take to collect the money of their customers. For other types of companies this is not the end, as with a careful financial management it can be turned over. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

Short-term solvency ratios:

To understand better the short-term solvency ratios, it is essential to start with the working capital.

Working capital: current assets - current liabilities

A working capital is the difference between a company's assets and its liabilities. It can either be negative, neutral, or positive. Companies usually desire to have a positive working capital to be able to have a money reserve if things do not go as they were intended to or if they usually need to pay upfront. Different sectors have different types of working capitals, a sector that usually has a negative working capital is the food industry, as they where they are paid by customers before having to pay their providers. (Muntean, 2020)

Now that I have explained the basis for short-term solvency, we can explain the other type of short-term solvency ratios.

Current ratio: current assets/current liabilities

This ratio can also be called the liquidity ratio. It is used to determine the ability of a company to pay off its liabilities. It is expected to have at least a ratio of 1:1, but it is always preferred to have a higher ratio (Bragg, 2002).

Having a positive current ratio helps the lenders and providers determine if a company can pay them, the higher ratio the higher possibility. This opens new opportunities to a company to expand their business and secure a stable growth. On the contrary, if a company has a negative current ratio, it will have negative impacts on the relation between the company and its partners. It is also possible that this is due to a high amount of stock in a company and a bad organization of its financial assets. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

Continuing this ratio, we can analyse a different type of ratio which raises us the question if a company can pay off its liabilities if we do not sell stock.

Acid ratio: current assets - stock / current liabilities

This ratio is like the current ratio, but it does not take into account the stock. This can explain a negative current ratio, which can let us determine that that company needs to improve their financial management and does not handle its stock correctly; but it can also help us identify if a company is very reliant on their stock or not at all. It is a ratio which greatly differs in different sectors. That is why it is a ratio which can not be applied to all types of sectors and it should be used only in the correct situation to obtain a correct perspective on the company's financial situation. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

Cash ratio: Current assets - stock - clients/ current liabilities.

This ratio raises the question if a company can pay off its liabilities with the cash ratio. This, again as the previous ratio, gives us a perspective on which way a company manages their incomes. The result of this ratio, as the previous ones, depends on the sector. The last three ratios should all have a decreasing evolution. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

4.2. Assets and liabilities ratio

These ratios are used to analyse the structure of the assets and the liabilities, one for each. They help us understand some basic information of a given company.

Fixed asset ratio: Non-Current assets/Total assets

This ratio is a measure of the percentage of fixed assets in the total assets of a company. The importance of this ratio depends on the sector of a company or their values. It does not give a lot of information on itself, but it is useful to use when you compare one company with another one in the same sector to analyse how much impact the fixed assets have on the profits of a company. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

Total debt ratio: Total liabilities/ Total liabilities + net equity

This ratio gives us a perspective of how much debt the company has. Debt is not always a bad sign, as long as the company produces enough profits to pay off these debts. But it helps us analyse the financial management of a company. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

This ratio can also be done in a different way but only analysing the short-term debt of a company.

Short term debt ratio: Current liabilities/Total liabilities

The short-term debt ratio is an important ratio when analysing debt in a company. A high amount of short-term debt is not a good sign of proficient financial management. There are exceptions for certain economic sectors, but in most of them a high amount of short-term debt is not desirable. This ratio also shows us at the same time how much percentage the long-term debt is in a company. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

4.3. Profitability ratios

Profitability ratios are metrics used to determine the ability of a company to produce income without taking into account the methods used to generate this income. These ratios are analysed in a specific period of time. The higher these ratios, better the financial management of a company. But to have high revenues does not imply that you are profitable. That is why these ratios are used. (Muntean, 2020)

ROA: EBIT/ Total assets

EBIT are all revenues before interests and taxes. This ratio measures how much income a company can generate with its own assets. It helps to determine the structure of a company's assets and help them determine how profitable each part of their assets is in relation to the company’s income. This ratio can be changed easily from year to year if a company decides to acquire or sell assets. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

This ratio can also be divided into two separate ratios: The profit margin and the turnover.

Profit margin: EBIT/Sales

The profit margin ratio is used to analyse how much profit you make with each sale. It is a representation of the profits made by a company in a specific period of time. It is desirable to have a high percentage of this ratio and most company’s always try to increase their profit margin. (Muntean, 2020)

Turnover: Sales/total assets

The turnover ratio is used to determine how effective each asset is to producing sales. Company’s try to have a high percentage of both the profit margin and the turnover ratio. If a company has a lower turnover percentage than desired, it can sell assets that are not helping to increase sales or try to improve sales with the assets already in possession. (Muntean, 2020)

ROE: EBIT/Net equity

This ratio is especially interesting for investors as it analyses how much an investor can obtain with their investment in a company. This ratio should always be above the expected amount by the investors, or the amount promised to the investors by the company. Even though it is a ratio that differs greatly with each company, it is desirable to be as high as possible to increase the attention from investors. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

4.4. Ratios of the cost structure

Ratios of the cost structure analyse fixed and variable costs a company decides to implement to obtain their revenue. These costs combine to create the total costs of a company:

CT= %CF + %CV

First, we need to understand the difference between fixed and variable costs. Variable costs are costs that are dependent on sales. They differ with the amount of production a company decides to implement in their strategy. Meanwhile fixed costs are costs that are the same all year round, they are costs that will not depend on production and do not influence sales.

Combine these two costs and you obtain the total amounts of costs of a company. Each company can decide to implement their own structure of costs. Not every company needs the same strategy to fulfil their expectations of their financial prospects of a given period of time.

The three main types of cost structures implemented low fixed costs, medium fixed costs, and high fixed costs. Each obtaining different outcomes. The structure used by a company will also decide the variable costs a company will need to implement. Low fixed costs require high variable costs, medium fixed costs require medium variable costs and high fixed costs require low variable costs.

One of the main objectives of the structure a company decides to implement is to obtain the break-even point.

Break-even point: Total fixed costs/ (1-(Total variable costs/Sales))

“The break-even point measures the sales level at which a company exactly breaks even” (Braggs 2002). When the result is null it means that your income is the same as your costs. The break-even point can show theoretically how much profit a company can make in a given time period and it can help in deciding what cost structure to use a company. It can also help you decide what costs to change if your revenue is not as expected. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

Break-even point coverage: Break-even point/sales

The coverage of the break-even point can help us identify just how much sales we need to make to obtain our break-even point. We can conclude that it is desirable to have a low break-even point but not necessary. A low break-even point gives us an easier route to obtain profit, but a higher break-even point can help a company obtain higher profits but also has more risks because you depend on reaching the expected sales. (Archel Domenech, Lizarraga Dallo, Sánchez Alegría & Cano Rodríguez, 2018)

5. Main characteristics of the analysed companies

Starbucks is an American chain of coffeehouses. They are known for their fast coffee on the go which has become a very popular trend in the 2010s in the USA and later in other western and developed countries. They are known as the main representation of the second wave of the coffee culture. They are the world's largest coffeehouse chain, and it operates in over 70 countries worldwide. Some of their popular products include the “Frappuccino” coffee, “La Boulange” pastries and the “Pumpkin Spice Latte”. (Wikipedia, 2020)

On the other hand, Dunkin Donuts is also American chain of coffee houses, but they are known for their donuts. In the beginning they started as only a donut focused on the go shop but at the end of the 2010s, they decided to turn into a beverage-focused company, rebranding as Dunkin. It is located in over 42 countries worldwide. (Wikipedia, 2020)

In America, these two coffeehouses are known as the biggest companies in their sector. Starbucks is mostly popular in the west of the USA, especially in California. Meanwhile Dunkin Donuts is more popular in the east, especially in New York. Their expansion internationally has been more successful for Starbucks, but each year Dunkin Donuts is getting more popularity worldwide.

It should be noted that I will be using the annual reports of Starbucks Corporation and Dunkin’ brands Group INC. but my focus will lie on their coffeehouse chains.

6. Financial-economic analysis of Starbucks

6.1. Balance sheet analysis

6.1.1. Vertical percentages

First, I will show the balance sheet made for the financial-economic analysis of Starbucks. It is elaborated with the vertical percentages. (All values are in millions)

	2019	%V	2018	%V	2017	%V
Non-current assets	13565.7	70.58%	11662.2	48.28%	9082.2	63.22%
Properties, Equiment and Goodwill	6431.7	33.46%	5929.1	24.54%	4919.5	34.25%
Intangible assets	4272.6	22.23%	4583.8	18.98%	1980.6	13.79%
Investments	616	3.21%	602.4	2.49%	1023.9	7.13%
Other Non-current assets of interest	2245.4	11.68%	546.9	2.26%	1158.2	8.06%
Current assets	5653.9	29.42%	12494.2	51.72%	5283.4	36.78%
				0.00%		0.00%
Inventory	1529.4	7.96%	1400.5	5.80%	1364	9.49%
Short-term investments	70.5	0.37%	181.5	0.75%	228.6	1.59%
Cash and cash equivalents	2686.6	13.98%	8756.3	36.25%	2462.3	17.14%
Other current assets of interest	1367.4	7.11%	2155.9	8.92%	1228.5	8.55%
Total assets	19219.6	100%	24156.4	100%	14365.6	100%
	2019	%V		%V		%V
Total equity	-6231.00	-32.42%	1175.80	4.87%	5457.00	37.99%
Capital	41.1	0.21%	41.1	0.17%	41.1	0.29%
Retained earnings	-5771.2	-30.03%	1457.4	6.03%	5563.2	38.73%
Accumulated other comprehensive loss	-503.3	-2.62%	-330.3	-1.37%	-155.6	-1.08%
Other equity interests	2.4	0.01%	7.6	0.03%	8.3	0.06%
Total Liabilities	25450.6	132.42%	22980.6	95.13%	8908.6	62.01%
Non-current liabilities	19281.9	100.32%	17296.4	71.60%	4687.9	32.63%
				0.00%		0.00%
Long-term debt	11167.0	58.10%	9090.2	37.63%	3932.6	27.38%
Deferred revenue	6744.4	35.09%	6775.7	28.05%	4.4	0.03%
Other non-current liabilities	1370.5	7.13%	1430.5	5.92%	750.9	5.23%
Current liabilities	6168.7	32.10%	5684.2	23.53%	4220.7	29.38%
Short-term debt	0.0	0.00%	349.9	1.45%	0	0.00%
Account payable	1189.7	6.19%	1179.3	4.88%	782.5	5.45%
Other current liabilities	4979.0	25.91%	4155	17.20%	3438.2	23.93%
Total Passive	19219.60	100%	24156.40	100%	14365.60	100%

Table 1: Balance sheet of Starbucks with vertical percentages. (Starbucks, 2019). Own elaboration

First, I want to explain what a vertical percentage means. With a vertical percentage we can analyse exactly how much of the total active or passive an account is, being the total active and passive both 100%. This way we can analyse exactly how much of an account has changed each year.

When we look at the non-current assets it is interesting to see it has changed every year with a high difference. By having many stores and intangible assets it is expected that there would be a high percentage but only 2019 shows a high percentage with 70%. That also means that the current assets differ each year and that is clearly visible, where we can see that the cash and cash equivalents differ greatly with each year.

But when we analyse the numbers, we see that there is a mostly steady increase each year with each account, but the percentages change. In this case it is due to the cash in 2018, which had a very high increase to 2017 and very high decrease in 2019.

Moving on to the passive there is a very interesting account and that is the net equity which is negative in 2019. There is a steady capital, but very low. And it is mostly dominated by retained revenue and comprehensive loss. This is due to Starbucks paying high dividend to shareholders. Choosing a higher revenue today at the cost of safety for the company in the future (Paige, 2020)

And then to finish we have the Liabilities. The Non-current liabilities have increased each year significantly. We can see that this is due mostly to long-term debt that the company has accumulated but also to the increase in deferred revenue that started in 2018 from a deal worth 6.4B $ which Starbucks is dividing equally over 40 years. We can see that from 2018, the non-current liabilities have had the most weight on the passive account. (Starbucks, 2018)

And lastly, we have the current liabilities which have been very similar each year. What is interesting is that there is no short-term debt in both 2019 and 2017 and a very low amount in 2018. This explains the high amounts of long-term debt for each year.

To conclude we can analyse briefly that Starbucks has a very interesting strategy for their financial-economic growth, especially in 2019 with the negative net equity. But we can see that there is growth with each year, even though it is not completely represented by the percentages.

6.1.2. Horizontal percentages

In the following table I will show the horizontal percentages of the balance sheet of Starbucks. (values in millions)

	2019	%H	2018	%H	2017	%H
Non-current assets	13565.7	149.37%	11662.2	128.41%	9082.2	100.00%
Properties, Equiment and Goodwill	6431.7	130.74%	5929.1	120.52%	4919.5	100.00%
Intangible assets	4272.6	215.72%	4583.8	231.43%	1980.6	100.00%
Investments	616	60.16%	602.4	58.83%	1023.9	100.00%
Other Non-current assets of interest	2245.4	193.87%	546.9	47.22%	1158.2	100.00%
Current assets	5653.9	107.01%	12494.2	236.48%	5283.4	100.00%
Inventory	1529.4	112.13%	1400.5	102.68%	1364	100.00%
Short-term investments	70.5	30.84%	181.5	79.40%	228.6	100.00%
Cash and cash equivalents	2686.6	109.11%	8756.3	355.61%	2462.3	100.00%
Other current assets of interest	1367.4	111.31%	2155.9	175.49%	1228.5	100.00%
Total assets	19219.6	133.79%	24156.4	168.15%	14365.6	100.00%
	2019	%H		%H		%H
Total equity	-6231.00	-114.18%	1175.80	21.55%	5457.00	100.00%
Capital	41.1	100.00%	41.1	100.00%	41.1	100.00%
Retained earnings	-5771.2	-103.74%	1457.4	26.20%	5563.2	100.00%
Accumulated other comprehensive loss	-503.3	323.46%	-330.3	212.28%	-155.6	100.00%
Other equity interests	2.4	28.92%	7.6	91.57%	8.3	100.00%
Total Liabilities	25450.6	285.69%	22980.6	257.96%	8908.6	100.00%
Non-current liabilities	19281.9	411.31%	17296.4	368.96%	4687.9	100.00%
Long-term debt	11167.0	283.96%	9090.2	231.15%	3932.6	100.00%
Deferred revenue	6744.4	153281.82%	6775.7	153993.18%	4.4	100.00%
Other non-current liabilities	1370.5	182.51%	1430.5	190.50%	750.9	100.00%
Current liabilities	6168.7	146.15%	5684.2	134.67%	4220.7	100.00%
Short-term debt	0.0	100.00%	349.9	34990.00%	0	100.00%
Account payable	1189.7	152.04%	1179.3	150.71%	782.5	100.00%
Other current liabilities	4979.0	144.81%	4155	120.85%	3438.2	100.00%
Total Passive	19219.60	133.79%	24156.40	168.15%	14365.60	100.00%

Table 2: Balance sheet of Starbucks with horizontal percentages. (Starbucks 2019). Own elaboration

Horizontal percentages show you the evolution of the financial accounts of a company with the reference as the first year chronologically (in the case of this thesis, 2017).

Starting with the non-current assets we can observe that there has been a steady increase each year. Where the percentages are a bit more confusing is in the current assets where we can see a high increase from 2017 to 2018 in most accounts but a decrease from 2018 to 2019. The biggest difference being the cash account which has an increase of 255% and a year later a decrease of 246%.

Just as the vertical percentages, the net equity is difficult to analyse. As 2019 has a negative result it is difficult to compare it to previous years. But when we compare 2018 to 2017, we can see a decrease in all accounts.

Moving on the non-current liabilities we can see very high increase each year in all accounts, especially in the deferred revenue which increased 153281%, which is because of the Nestle deal. The current liabilities are the only part of the balance sheet which shows a normal increase for each year. This is not a big surprise as we have seen that Starbucks focuses most of their liabilities in long-term.

We can see that there has been an increase from 2017 to 2018 but a decrease from 2018 to 2019, which helps us understand better some aspects of the vertical percentages and why they differ so much (for example cash).

6.1.3. Assets and liabilities ratios

The first ratios that will be analysed will be the assets and structure ratios, explained in the methodology.

Fixed assets ratio

2019	2018	2017
71%	48%	63%

Table 3: Fixed assets ratio of the 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

The fixed asset ratio differs a lot depending on each sector, as explained in the methodology. In the case of Starbucks, it is normal that it is high as they own a lot of establishments where they sell their products. The dip in 2018 is due to a high amount of cash which devaluates the percentage by about 20% to the other two years.

Total debt ratio:

2019	2018	2017
132%	95%	62%

Table 4: Total debt ratio of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

We can see a clear increase in the ratio, but it is important to understand why as we have been able to understand previously these numbers. This is increase is explained with the net equity as that has decreased a lot with the years, to eventually be negative in 2019 (which explains the very high percentage). It is important to explain that this is not especially bad for the company, as we will need to understand how the debt ratio would be with a more stable net equity. It will also depend on the amount of interest on the debt of the company. With the following ratio it may be a bit easier to understand the financial position on the debt of the company.

Short-term debt ratio:

2019	2018	2017
32%	33%	90%

Table 5: Short-term debt ratio of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

These results are very interesting as we can see a very big decrease in short term debt, almost 60%. This shows a clear intention to transfer most of the debt to long-term, which is a very popular growth strategy. This also helps us explain a bit better the previous ratio as it gives us another argument to why the previous ratio depends a lot on the net equity in Starbucks case.

What is important to analyse is that the current liabilities have increased in a steady rate, it is the large increase in non-current liabilities which caused the difference.

6.1.4. **Solvency ratios**

Working capital:

2019	2018	2017
$ -514.80	$ 6,810.00	$ 1,062.70

Table 6: Working capital of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration.

Shown in millions, we can see that there is a good working capital in the first two years, with a very high increase from 2017 to 2018. But similar to the other ratios analysed, in 2019 there is again a big decrease. It is very positive for Starbucks to have a high working capital in the first two years, but they should try to increase it for 2020 and further as several years with a negative working capital can bring bad results to the company.

Current ratio:

2019	2018	2017
0.92	2.20	1.25

Table 7: Current ratio of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

We can see that the solvency ratio follows the working capital, showing us that in 2019 it is negative and in the other two positives. With the results in the first two years Starbucks is in a very good position as they can pay their creditors. But again, it is worrying that they have a very low ratio in 2019.

Acid ratio:

2019	2018	2017
0.67	1.95	0.93

Table 8: Acid ratio of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

It is normal for this ratio to be lower than the current ratio as we take away part of the current assets. There is a pretty big difference of 0.3 in each year, which gives us an indication that there is a lot of inventories in Starbucks. But this is not very worrying as it is normal for their industry to have a higher number of inventories.

Cash ratio:

2019	2018	2017
0.44	1.54	0.58

Table 9: Cash ratio of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

The cash ratio considers only the cash and cash equivalents in the current assets; thus, it is again normal that it is lower than the previous ratio as each time we take out more of the current assets. Here we can see that it decreases around 40% each year, which means that it may have a small problem with their payments. Even though we can see that the cash amount in 2018 is very high, which also helps us understand why 2018 stood out in the previous ratios.

Solvency ratio:

2019	2018	2017
76%	105%	161%

Table 10: Solvency ratio of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

To finish, we have the solvency ratios. We can see a downtrend where the company each year has become less solvent which can be a big concern for their future. For the size of the company, they would want to increase their solvency each year.

6.2. Income statement analysis
6.2.1. Vertical percentages

To start I will analyse the vertical percentages of the income statement (shown in millions).

	2019	%V	2018	%V	2017	%V
Sales	26502	100%	24720	100%	22384	100%
				0%		0%
Cost of Sales	19324	73%	17799	72%	15972	71%
				0%		0%
Other expanses	3273	12%	3061	12%	2460	11%
				0%		0%
Depreciation and amortization	1449	5%	1306	5%	1067	5%
Administrative	1824	7%	1755	7%	1393	6%
				0%		0%
EBIT	3905	15%	3860	16%	3952	18%
Financial performance	561	2%	1920	8%	366	2%
Pretax income	4466	17%	5780	23%	4318	19%
Income Tax	872	3%	1262	5%	1433	6%
Net income	3594	14%	4518	18%	2885	13%

Table 11: Income statement of Starbucks vertical percentages. (Starbucks 2019). Own elaboration

The methodology used is in respect to the total sales where I compare the difference of each account with the total sales.

For the cost I have divided them in 2 parts as I think it is important to distinguish them. One is the cost of sales and the other cost of administration and depreciation. As I do not believe they go together, and it gives us a better perspective on the weight of the cost of sales. It is important to highlight that the financial performance each year is positive, which usually is negative.

We can see that after taking out all the cost there is still a 15%-18% margin of the sales, which we can see in the EBIT. And when we consider the financial performance and the tax, we have a final result of 13-18%. Each year has a very different result but after analysing the previous ratios in the balance sheet we can understand why one year has a better performance than another.

6.2.2. Horizontal percentages

To continue I will analyse the horizontal percentages of the income statement (shown in millions)

	2019	%H	2018	%H	2017	%H
Sales	26502	118%	24720	110%	22384	100%
Cost of Sales	19324	121%	17799	111%	15972	100%
Other expanses	3273	133%	3061	124%	2460	100%
Depreciation and amortization	1449	136%	1306	122%	1067	100%
Administrative	1824	131%	1755	126%	1393	100%
EBIT	3905	99%	3860	98%	3952	100%
Financial performance	561	153%	1920	525%	366	100%
Pretax income	4466	103%	5780	134%	4318	100%
Income Tax	872	61%	1262	88%	1433	100%
Net income	3594	125%	4518	157%	2885	100%

Table 12: Income statement of Starbucks horizontal percentages. (Starbucks 2019). Own elaboration

Every account increased each year except the EBIT and income tax which is very positive for the company as it shows that each year, they sell more than the previous, the net income increases 57% from 2017 to 2018 and 25% from 2017 to 2019.

This shows us a positive trend after seeing that Starbucks was on a negative trend in most of the previous analysed ratios. Even though there still are similarities, we can see that there has been growth.

6.2.3. Profitability ratios

ROA

2019	2018	2017
20%	16%	28%

Table 13: ROA of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

The higher the ROA the higher the capacity that the assets must produce benefits. We can see that the ROA of Starbucks is very good as it is at least 16%. The high amount in 2017 is because the total assets were significantly lower than the following years.

To understand better where their profits come from, we will divide the ROA in the profit margin and the turnover.

Profit margin

2019	2018	2017
0.15	0.16	0.18

Table 14: Profit margin of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

This margin shows us that with every dollar spend, they obtain 0.15 dollars of profit. This is a decent amount as with almost every dollar spend, they almost have 20% profit. It is interesting to note that this margin has been decreasing over the years, which means that the cost has been increasing quicker than the sales.

Turnover

2019	2018	2017
1.38	1.02	1.56

Table 15: Turnover of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

The turnover tells us that with every dollar invested they obtain 1.38 dollars in 2019. This is very high and the difference with the profit margin is very high too. This tells us that Starbucks can generate a lot of profit with their assets and the increase in turnover from 2018 to 2019 means that they are able to sell more with less.

ROE

2019	2018	2017
-63%	328%	72%

Table 16: ROE of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

The ROE has been decreasing every year, even going into the negatives in 2019. This is due to the equity that has been decreasing each year. This is not a positive sign for Starbucks as it can keep investors from investing in the company.

6.2.4. Cost of structure ratios

To analyse the cost structure of Starbucks we first must know the fixed costs. As I have not been able to find trustworthy information on their fixed costs, to analyse the cost structure ratios I will assume of the fixed costs of Starbucks being the total sum of the other expenses and the variable costs being the costs of sales and the financial performance.

Break-even point

2019	2018	2017
$ 8,424.20	$ 3,829.66	$ 8,124.02

Table 17: BEP of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

With the break-even point we can exactly see how much revenue Starbucks must make to cover their costs, being in 2019 8424.2 million dollars. With our income statement we can see that Starbucks covers their costs with ease.

Coverage of break-even point

2019	2018	2017
32%	15%	36%

Table 18: CBEP of the years 2019, 2018 and 2017. (Starbucks, 2019). Own elaboration

With this ratio we can see how much percentage of the revenue goes to covering the costs. We can see that it has decreased from 2017 to 2019 which means that Starbucks makes more money now with their costs spend than in 2017.

7. Financial-economic analysis of Dunkin Donuts.
7.1. Balance sheet analysis
7.1.1. Vertical percentages

To analyse the next company, I will follow the same order as the previous one. All data in the balance sheet and income statement shown in millions.

	2019	%V	2018	%V	2017	%V
Non-current assets	3012.723	76.85%	2643.108	76.47%	2633.100	66.87%
Properties, Equiment and Goodwill	223.120	5.69%	209.202	6.05%	181.542	4.61%
Intangible assets	2191.007	55.89%	2223.032	64.31%	2245.465	57.03%
Investments	154.812	3.95%	146.395	4.24%	140.615	3.57%
Other Non-current assets of interest	443.784	11.32%	64.479	1.87%	65.478	1.66%
Current assets	907.301	23.15%	813.473	23.53%	1304.333	33.13%
Inventory	0.000	0.00%	0.000	0.00%	0.000	0.00%
Short-term investments	0.000	0.00%	0.000	0.00%	0.000	0.00%
Cash and cash equivalents	621.152	15.85%	517.594	14.97%	1018.317	25.86%
Other current assets of interest	286.149	7.30%	295.879	8.56%	286.016	7.26%
Total assets	3920.024	100.00%	3456.581	100.00%	3937.433	100.00%
	2019.000	%V		%V		%V
Total equity	-588.010	-15.00%	-712.797	-20.62%	-254.539	-6.46%
Capital	561.345	14.32%	642.017	18.57%	724.114	18.39%
Retained earnings	-1129.565	-28.82%	-1338.709	-38.73%	-968.148	-24.59%
Accumulated other comprehensive loss	-19.809	-0.51%	-15.127	-0.44%	-9.525	-0.24%
Other equity interests	-0.064	0.00%	-1.060	-0.03%	-1.060	-0.03%
Total Liabilities	4508.034	115.00%	4169.378	120.62%	4191.972	106.46%
Non-current liabilities	3925.608	100.14%	3629.797	105.01%	3706.473	94.13%
Long-term debt	3004.216	76.64%	3010.626	87.10%	3035.857	77.10%
Deferred revenue	324.854	8.29%	331.980	9.60%	361.458	9.18%
Other non-current liabilities	596.538	15.22%	287.191	8.31%	309.158	7.85%
Current liabilities	582.426	14.86%	539.581	15.61%	485.499	12.33%
Short-term debt	31.150	0.79%	31.650	0.92%	31.500	0.80%
Account payable	89.413	2.28%	80.037	2.32%	53.417	1.36%
Other current liabilities	461.863	11.78%	427.894	12.38%	400.582	10.17%
Total Passive	3920.024	100.00%	3456.581	100.00%	3937.433	100.00%

Table 19: Vertical percentages of Dunkin Donuts of the years 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The assets have been stable over the last 3 years, the only difference is that with each year they have moved more weight from their current assets to their non-current assets.

In their non-current assets, we can see that the intangible assets are every year at least half of the total non-current assets. When we take a deeper look inside the intangible assets, we can see that it is due to a high amount of Goodwill (not shown in the table). Apart from that they have increased their property every year which is expected from a growing company.

Analysing the current assets, it is very interesting that they do not have any inventories or short-term investments, at least they do not present them in their annual report. This makes a very high value of the cash as it is the main component of the current assets, but it has decreased over the years.

Their net equity is negative in all years. Here we can have a similar explanation as we saw with Starbucks, where the company decided to pay high dividends to shareholders and create a higher revenue today but less stability in the future scenario. Later, we can compare these similar results to the rest of the industry to see if it is a common occurrence or a coincidence.

Their liabilities have increased with each year, with a similar degree both in current and non-current. The long-term debt has the mayor weight in the liabilities and opposed to Starbucks, Dunkin Donuts does have short-term debt but a very stable and low amount each year, being less than 1% of the total liabilities.

7.1.2. **Horizontal percentages**

	2019	%H	2018	%H	2017	%H
Non-current assets	3012.723	114.42%	2643.108	100.38%	2633.100	100.00%
Properties, Equiment and Goodwill	223.120	122.90%	209.202	115.24%	181.542	100.00%
Intangible assets	2191.007	97.57%	2223.032	99.00%	2245.465	100.00%
Investments	154.812	110.10%	146.395	104.11%	140.615	100.00%
Other Non-current assets of interest	443.784	677.76%	64.479	98.47%	65.478	100.00%
Current assets	907.301	69.56%	813.473	62.37%	1304.333	100.00%
Inventory	0.000	100.00%	0.000	100.00%	0.000	100.00%
Short-term investments	0.000	100.00%	0.000	100.00%	0.000	100.00%
Cash and cash equivalents	621.152	61.00%	517.594	50.83%	1018.317	100.00%
Other current assets of interest	286.149	100.05%	295.879	103.45%	286.016	100.00%
Total assets	3920.024	99.56%	3456.581	87.79%	3937.433	100.00%
	2019.000	%H		%H		%H
Total equity	-588.010	231.01%	-712.797	280.03%	-254.539	100.00%
Capital	561.345	77.52%	642.017	88.66%	724.114	100.00%
Retained earnings	-1129.565	116.67%	-1338.709	138.28%	-968.148	100.00%
Accumulated other comprehensive loss	-19.809	207.97%	-15.127	158.81%	-9.525	100.00%
Other equity interests	-0.064	6.04%	-1.060	100.00%	-1.060	100.00%
Total Liabilities	4508.034	107.54%	4169.378	99.46%	4191.972	100.00%
Non-current liabilities	3925.608	105.91%	3629.797	97.93%	3706.473	100.00%
Long-term debt	3004.216	98.96%	3010.626	99.17%	3035.857	100.00%
Deferred revenue	324.854	89.87%	331.980	91.84%	361.458	100.00%
Other non-current liabilities	596.538	192.96%	287.191	92.89%	309.158	100.00%
Current liabilities	582.426	119.96%	539.581	111.14%	485.499	100.00%
Short-term debt	31.150	98.89%	31.650	100.48%	31.500	100.00%
Account payable	89.413	167.39%	80.037	149.83%	53.417	100.00%
Other current liabilities	461.863	115.30%	427.894	106.82%	400.582	100.00%
Total Passive	3920.024	99.56%	3456.581	87.79%	3937.433	100.00%

Table 20: Horizontal percentages of Dunkin Donuts of the years 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

We can see a decrease in the total assets and liabilities from 2017 to 2019, with a big dip in 2018. But it has not been a big difference, as it is with less than a 1% difference between 2019 and 2017.

For the non-current assets, we can see a similar correlation as with the vertical analysis where we can see a steady increase each year; with, at the same time, a steady decrease in the current assets. It is interesting to point out that from 2017 to 2018 there was an almost 50% decrease in cash, but that has been restored a bit in 2019.

For the net equity we can see a very dig decrease in their accounts. Where each year they go bigger into the negatives. This is not optimal for the company on the long run as it can affect their future investments.

To contrast the decrease in net equity, the liabilities have increased each year, especially the current liabilities which have increased 20%, mostly due to the payable account.

7.1.3. **Assets and liabilities ratios**

Fixed assets ratio

2019	2018	2017
77%	76%	67%

Table 21: Fixed assets ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

This ratio shows us the amount of non-current assets the company has in contrast to their total assets. It is understandable that they have a high percentage as they sell their products in stores they own or lease. We can also see the increase in their non-current assets with each year as we analysed in their horizontal percentages.

Total debt ratio

2019	2018	2017
115%	121%	106%

Table 22: Total debt ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The total debt ratio is very high, which is concerning, but we must consider that the company has had a negative equity in each year. We can see that the debt ratio has increased but it is important to know if this debt can be paid off, which we will see in the solvency ratios.

Short-term debt ratio

2019	2018	2017
15%	15%	13%

Table 23: Short-term debt ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

We can see that most of the company’s debt is long term, which is good for the company as it means that it will probably not have difficulties paying of their debts for the year. It does show us that they accumulate a lot of long-term debt, which probably means that there is a low amount of interest on these loans.

7.1.4. **Solvency ratios**

Solvency ratio

2019	2018	2017
87%	83%	94%

Table 24: Solvency ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

This ratio is not very positive for the company as it is in a technical bankruptcy. It is not fatal for the company as it can pay off their short-term debts as they are very low, but the company should try to increase their equity and/or their assets to try to combat this situation.

Working capital

2019	2018	2017
$ 324.88	$ 273.89	$ 818.83

Table 25: Working capital of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

We can see a very high working capital in 2017, as it is almost 100 million dollars. But the next years it goes down by a large margin which is due to the big decrease in cash. It still has a good amount of working capital as it is able to pay their short-term debts and more with their working capital if problems arise for the company.

Current ratio

2019	2018	2017
1.56	1.51	2.69

Table 26: Current ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The current ratio of the company is very positive as it reaffirms us that they can pay their duties without much problem. Even though of the decrease from 2017 it is still above 1, which should be their main focus for this ratio.

Acid ratio

2019	2018	2017
1.56	1.51	2.69

Table 27: Acid ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The acid ratio is the same as the current ratio as they do not have an account for inventories. This does not give us a lot of information so I will focus on the cash ratio to take a better look into their solvency.

Cash ratio

2019	2018	2017
1.07	0.96	2.10

Table 28: Cash ratio of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The cash ratio gives us a better perspective on where the importance of the current assets lies in the company. We can see that it is almost above 1 in both years and it does not decrease a lot from the acid and current ratio which tells us that they do not have a big problem with their clients' payments. They have a high amount of cash and cash equivalents as we can see and that will help us be able to pay of our debts without many problems.

7.2. Income statement

7.2.1. Vertical analysis

	2019	%V	2018	%V	2017	%V
Sales	1370.227	100%	1321.617	100%	1275.551	100%
Cost of Sales	643.616	47%	621.948	47%	599.262	47%
Other expanses	275.561	20%	287.837	22%	285.247	22%
Depreciation and amortization	36.883	3%	41.045	3%	41.419	3%
Administrative	238.678	17%	246.792	19%	243.828	19%
EBIT	451.05	33%	411.832	31%	391.042	31%
Financial performance	-131.788	-10%	-122.631	-9%	-107.715	-8%
Pretax income	319.262	23%	289.201	22%	283.327	22%
Income Tax	77.238	6%	59.295	4%	12.118	1%
Net income	242.024	18%	229.906	17%	271.209	21%

Table 29: Vertical percentages of Dunkin Donuts of the years 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The vertical percentages, just as with Starbucks, have as reference the total revenue from sales to be contrasted with the other accounts.

We can see that they were able to keep the same percentage of cost of sales in all 3 years and a very similar cost of other expenses, only being 2% lower in 2019. This can show us some interesting results in the upcoming profitability ratios.

For the net income of the year, we have a very similar amount, decreasing from 2017, but only because the financial performance increased with each year, and as it is negative it lowers the net income of the company, as the EBIT is very similar also each year, only growing in 2019 2%.

7.2.2. **Horizontal analysis**

	2019	%H	2018	%H	2017	%H
Sales	1370.227	107%	1321.617	104%	1275.551	100%
Cost of Sales	643.616	107%	621.948	104%	599.262	100%
Other expanses	275.561	97%	287.837	101%	285.247	100%
Depreciation and amortization	36.883	89%	41.045	99%	41.419	100%
Administrative	238.678	98%	246.792	101%	243.828	100%
EBIT	451.05	115%	411.832	105%	391.042	100%
Financial performance	-131.788	122%	-122.631	114%	-107.715	100%
Pretax income	319.262	113%	289.201	102%	283.327	100%
Income Tax	77.238	637%	59.295	489%	12.118	100%
Net income	242.024	89%	229.906	85%	271.209	100%

Table 30: Horizontal percentages of Dunkin Donuts of the years 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The revenue of sales and the cost of sales have increased each year by the same amount, to a total of 7% from 2017 to 2019. At the same time the administrative costs and the depreciation costs have all decreased except for a 1% increase in administrative costs in 2018.

But when we look at the net income, we can see that there has been a decrease even though the revenue and costs have been very stable over the three years. This is due to the income tax, which has increased by a total of 637% in 2 years. Even though the number is still small, which can be seen by the small difference in net income, it still is a big increase percentage wise.

7.2.3. **Profitability ratio**

ROA

2019	2018	2017
12%	12%	10%

Table 31: ROA of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The ROA of Dunkin Donuts is on the low side, which means that they produce a 10% of profit on their assets. Even though it has increased over the years. We have seen that the both the assets as the net income have not changed a lot over the last 3 years.

To analyse the ROA further we will analyse the profit margin and the turnover.

Profit margin

2019	2018	2017
0.33	0.31	0.31

Table 32: Profit margin of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

Dunkin Donuts makes 0.33 dollars of profit with every dollar spend. This is a low profit margin and that can help us understand better why the ROA is so low. Just as most of the profitability ratios, this one is very similar each year.

Turnover

2019	2018	2017
0.35	0.38	0.32

Table 33: Turnover of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

Dunkin Donuts turnover is very similar to their profit margin. We can see that from 2017 to 2019 the efficiency with their assets increased, but the numbers are still very similar each year. This is again due to a low change in both sales and assets in the last 3 years for the company.

With both these results Dunkin Donuts should focus on improving their ROA as it is very low, and they could focus first on their profit margin or turnover as all these numbers are not the best for a company of their size.

ROE

2019	2018	2017
-77%	-58%	-159%

Table 34: ROE of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

As expected, the ROE is very low. We have seen in the balance sheet that their equity is negative each year and that will show a very poor ROE. This is not very optimal for the company as it will lose investments in the future from new investors, and it can lead to actual investors to leave the company.

7.2.4. Cost of structure ratios

Just as with Starbucks, I could not find trustworthy fixed costs for the company; thus, I took the same assumption as with Starbucks and took their depreciation, amortization, and administrative costs as fixed. Taking for reference 2017 for each year.

Break-even point

2019	2018	2017
$ 657.09	$ 506.31	$ 639.93

Table 35: BEP of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The break-even point of Dunkin Donuts is reached when we compare it to the revenue of sales. This is a good sign for the company as it means the company can obtain profits, as in all years their revenue doubles their break-even point.

Coverage break-even point

2019	2018	2017
48%	38%	50%

Table 36: CBEP of the 2019, 2018 and 2017. (Dunkin Donuts, 2019). Own elaboration

The coverage of the break-even point of Dunkin Donuts is not the best, as they would like it to be as low as possible. Approximately 50% of the sales are to cover the costs.

8. Comparative analysis

To continue, I will compare both results of the company's financial-economic analysis.

8.1. Assets and liabilities ratios

	Starbucks			Dunkin Donuts Group INC		
	2019	2018	2017	2019	2018	2017
Fixed assets	71%	48%	63%	77%	76%	67%
Total debt	132%	95%	62%	115%	121%	106%
Short-term debt	32%	33%	90%	15%	15%	13%

Table 37: Assets and liabilities ratios of the 2019, 2018 and 2017. (Dunkin Donuts, 2019) (Starbucks, 2019). Own elaboration

We can observe a similar percentage in the fixed assets ratio, as both companies will have around the same share of non-current assets as they operate in the same sector. What does stand out is Starbucks 2018, but it will stand out in all ratios I will compare.

For the total debt ratio, we can see that Starbucks started of with a lower percentage but eventually also surpassed the 100%. This is due to both companies having a negative equity, due to their strategy explained previously.

Both the companies have a similar amount of short-term debt, except in 2017 with Starbucks. Both companies put more weight in their long-term debt while maintaining a very stable amount of short-term debt each year.

8.2. Solvency ratios

	Starbucks			Dunkin Donuts Group INC		
	2019	2018	2017	2019	2018	2017
Solvency ratio	76%	105%	161%	87%	83%	94%
Working capital	$ -514.80	$ 6,810.00	$ 1,062.70	$ 324.88	$ 273.89	$ 818.83
Current ratio	0.92	2.20	1.25	1.56	1.51	2.69
Acid ratio	0.67	1.95	0.93	1.56	1.51	2.69
Cash ratio	0.44	1.54	0.58	1.07	0.96	2.10

Table 38: Solvency ratios of the 2019, 2018 and 2017. (Dunkin Donuts, 2019) (Starbucks, 2019). Own elaboration

In this ratio we do see more differences between the two companies. To start of we see that Starbucks lost their solvency over the years while Dunkin Donuts remained at a similar percentage over the years, now being both in 2019 at a similar amount.

Continuing with the working capital, we saw that both companies (except Starbucks 2019) have a positive working capital. Starbucks having a greater working capital, but that is because they are bigger than Dunkin Donuts.
What is interesting is that were Dunkin Donuts current ratio is stable and very positive, Starbucks current ratio is all over the place. We can see again that 2018 was a very good year for Starbucks, but 2019 in dropped significantly.

As Dunkin Donuts do not consider their inventories, I will not compare their acid ratio as it will not give us a lot of information. But when we look at the cash ratio, we see that Dunkin Donuts are in a much better position than Starbucks. Where Starbucks has some problems with clients' payments and an increased inventory, Dunkin Donuts find themselves in a very relaxing and stable position.

Both companies are not in the best position as they are in a technical bankruptcy, but where Dunkin Donuts is stable, Starbucks is all over the place.

8.3. **Profitability ratios**

	Starbucks			Dunkin Donuts Group INC		
	2019	2018	2017	2019	2018	2017
ROA	20%	16%	28%	12%	12%	10%
Profit margin	0.15	0.16	0.18	0.33	0.31	0.31
Turnover	1.38	1.02	1.56	0.35	0.38	0.32
ROE	-63%	328%	72%	-77%	-58%	-159%

Table 39: Profitability ratios of the 2019, 2018 and 2017. (Dunkin Donuts, 2019) (Starbucks, 2019). Own elaboration

Starbucks ROA is almost double that of Dunkin Donuts. Meaning they make more money from their assets than Dunkin Donuts do. But when we look at where Starbucks makes more, we can see that it is due to their turnover, which is 4 to 5 times higher than Dunkin Donuts. While Dunkin Donuts has a higher profit margin, we can see that Starbucks really gets a lot out of their assets.

Both companies have a very bad ROE, especially Dunkin Donuts. Even though Starbucks has a very good ROE in 2018 and a good one in 2017, it dropped a lot in 2019 and is not at a similar amount as Dunkin Donuts. This is bad for both companies as it can scare of potential investors.

In the profitability ratios we can observe that Starbucks is in a better position than Dunkin Donuts. While both companies are not doing good on their ROE, Starbucks has higher profits than Dunkin Donuts and know how to get more out of what they have.

8.4. **Cost of structure ratios.**

	Starbucks			Dunkin Donuts Group INC		
	2019	2018	2017	2019	2018	2017
Break-even point	$ 8,424.20	$ 3,829.66	$ 8,124.02	$ 657.09	$ 506.31	$ 639.93
Coverage break-even point	32%	15%	36%	48%	38%	50%

Table 40: Cost of structure ratios of the 2019, 2018 and 2017. (Dunkin Donuts, 2019) (Starbucks, 2019). Own elaboration

When referring to the break-even point, both companies surpass it as previously analysed, thus both being in a good position. But Starbucks makes more profit than Dunkin Donuts as their coverage of the break-even point is a lot lower.

While both companies make a profit on their businesses, Starbucks can clearly make more with what they have and with their business strategy than Dunkin Donuts does.

9. **Analysis with the sector**

In the analysis with the sector, I will analyse how both the companies compare to their competitors in their sector for the year 2019. I will be comparing them with the numbers of companies in Spain, even though they are American businesses. Through *Banco de España* I was able to obtain the results of several ratios of the companies in this sector. The sector that I chose, with guidance from my Thesis supervisor, was “restaurants and food stalls” under the code I561.

The ratios used by *Banco de España* are different than the ones I used for my analysis of the companies, for that reason I have a brief formula explaining what each ratio compares. For the companies in this sector, we have three different results, Q1, Q2 and Q3. Q2 is the medium of all the companies analysed in Spain; Q1 the lowest 25& and Q3 the highest 25% of the companies, when we analyse profitability; and Q1 would be the highest 25% and Q3 the lowest 25% of the companies, when we analyse costs. Thus, depending on the ratio it will be better to be around Q1 or Q3.

9.1. Starbucks

Ratio		Sectorial Q1	Sectorial Q2	Sectorial Q3	Starbucks
Profitability ratios:					
R1	Revenue margin/Sales	33.70%	40.75%	47.34%	27.08%
R3	Gross economical earnings/Sales	30.61%	37.41%	44.47%	20.20%
R4	Gross economical earnings/Total net debt	-5.13%	8.46%	32.94%	47.94%
R5	EBIT/Sales	-2.31%	1.69%	5.53%	14.73%
R16	Sales/Total active	121.16%	234.88%	416.61%	137.89%
R10	EBIT/Total active	-4.86%	3.51%	12.61%	20.32%
R11	Pretax income/ Net equity	1.40%	14.10%	39.16%	-71.67%
R12	Net income/Net equity	0.94%	10.95%	30.85%	-57.68%
Financial revenue and expanses:					
R8	Financial performance/ Gross economical earnings	-11.37%	-2.26%	0.00%	10.48%
R9	Financial performance/Sales	-0.58%	-0.12%	0.00%	2.12%
Working captal ratios					
R17	Inventories/Sales	0.60%	2.52%	7.39%	5.77%
R19	Comercial creditors/Sales	0.21%	2.58%	6.00%	23.28%
R20	Working capital/Sales	-4.32%	-0.80%	3.47%	-1.94%
Active structure					
R13	Financial properties/Total active	0.00%	0.04%	3.35%	14.89%
R14	Properties/total active	10.61%	31.49%	59.68%	33.46%
R15	Current assets/total active	22.69%	47.76%	75.73%	29.42%
R21	Short term assets/Total active	5.23%	19.01%	45.76%	21.46%
Structure passive					
R22	Net equity/Total passive	-0.27%	26.51%	58.27%	-32.42%
R27	Long term debt/Total passive	0.00%	5.84%	35.51%	58.10%
R28	Short term debt/Total passive	20.42%	42.55%	79.14%	0.00%
Activity					
T1	Sales 2019/Sales 2018	-3.91%	5.00%	15.97%	7.21%

Table 41: Analysis with Starbucks and its sector. (Banco de España, 2020). Own elaboration

To start we have the profitability ratios. In this section, Starbucks will want to be at the Q3, and we can see that there are very different results. In R4, R5 and R10 Starbucks is far above the Q3, the reason being the low amounts of total debt in R4 and the high amount of EBIT in R5 and R10. For the others Starbucks is mostly under the Q1, which is a bad sign for the company, especially in the cases of R11 and R12, but these are due to Starbucks having a very negative net equity.

Moving on the financial expanses ratios we can observe that Starbucks is above the Q3 in both the ratios, which is good. This is due to Starbucks having a positive financial performance.

When we analyse the working capital ratios, we can see that Starbucks is above the medium in both inventories and creditors, especially in creditors. As the inventories is not high for Starbucks, this probably means that they produce too much. But when analysing the creditors, we can observe that it is far above the Q3, which is not a bad sign for the company as it is money owed to them.

Moving on the active ratios we see that Starbucks is above the medium in financial investments, properties and short-term assets, while it is under the medium in current assets. With these ratios there is no specific thing to argument as they are normal for the sector, except for the financial properties which is very high. This is due to Starbucks higher long-term investments than other companies in their sector.

Following the assets ratios, we have the passive ratios, which are the most interesting of them all. As we can see, the first ratio is again very low because of the very negative net equity of Starbucks, meanwhile with the debt ratios we can see that Starbucks has all their focus on long-term debt. As Starbucks does not have any short-term debt, these ratios are either very high or very low.

And to finish we have the Activity ratio which compares the revenue of Starbucks from 2019 with 2018. Ans as we can see, it is above the medium, which is a good sign for the company.

In conclusion, we can observe that Starbucks has mostly similar results to its competitors, meanwhile having some very positive differences, putting them in front of their competitors; but also, some very negative differences which are mostly due to their negative net equity.

9.2. Dunkin' Donuts

Ratio		Sectorial Q1	Sectorial Q2	Sectorial Q3	Dunkin Do
Profitability ratios:					
R1	Revenue margin/Sales	33.70%	40.75%	47.34%	53.03%
R3	Gross economical earnings/Sales	30.61%	37.41%	44.47%	35.61%
R4	Gross economical earnings/Total net debt	-5.13%	8.46%	32.94%	16.07%
R5	EBIT/Sales	-2.31%	1.69%	5.53%	32.92%
R16	Sales/Total active	121.16%	234.88%	416.61%	34.95%
R10	EBIT/Total active	-4.86%	3.51%	12.61%	11.51%
R11	Pretax income/ Net equity	1.40%	14.10%	39.16%	-54.30%
R12	Net income/Net equity	0.94%	10.95%	30.85%	-41.16%
Financial revenue and expanses:					
R8	Financial performance/ Gross economical earnings	-11.37%	-2.26%	0.00%	-27.01%
R9	Financial performance/Sales	-0.58%	-0.12%	0.00%	-9.62%
Wokring capital ratios					
R17	Inventories/Sales	0.60%	2.52%	7.39%	0.00%
R19	Comercial creditors/Sales	0.21%	2.58%	6.00%	40.23%
R20	Working capital/Sales	-4.32%	-0.80%	3.47%	23.71%
Active structure					
R13	Financial properties/Total active	0.00%	0.04%	3.35%	15.27%
R14	Properties/total active	10.61%	31.49%	59.68%	5.69%
R15	Current assets/total active	22.69%	47.76%	75.73%	23.15%
R21	Short term assets/Total active	5.23%	19.01%	45.76%	23.15%
Structure passive					
R22	Net equity/Total passive	-0.27%	26.51%	58.27%	-15.00%
R27	Long term debt/Total passive	0.00%	5.84%	35.51%	76.64%
R28	Short term debt/Total passive	20.42%	42.55%	79.14%	3.43%
Activity					
T1	Sales 2019/Sales 2018	-3.91%	5.00%	15.97%	3.7%

Table 42: Analysis with Dunkin Donuts and its sector. (Banco de España, 2020). Own elaboration

To start we have the profitability ratios, above the medium except four ratios: R3, R16, R11 and R12. These are due to two reasons, the first on being, again, the very negative net equity which is the reason why R11 and R12 are so low, and the other reason being the low amount of revenue from sales Dunkin' Donuts has. Even though they have a high margin (higher than over 75% of the companies in the sector), it only shows that they are able to have low costs of their sales in comparison with other companies. Especially R16 is very low, due to a high amount of assets compared to the low number of sales.

Moving on the financial revenue and expenses ratios we have a very different result than to Starbucks. In the case of Dunkin' Donuts they are all under the Q1, which is due to the high amounts of financial performance they have to pay in comparison to their revenue.

Next, we have the working capital ratios. These are all very positive, we can observe they have a very high working capital in comparison to their revenue, which is very useful to have in case of emergency costs. For the inventory ratio we can see it is at 0, as Dunkin' Donuts does not have inventories and their creditors ratio is also very high which means that they still need to receive money from their operations. All in all, positive ratios.

Then we have the passive ratios, whereas we could have expected already that all the ratios involving net equity are very low due to its negative value. But apart from those ratios we can see that Dunkin' Donuts also has most of their debt positioned for the long-term. Which causes the high ratio in R27 and low ratio in R28.

And to finish we have the activity ratio, which is slightly under the medium, which is because Dunkin' Donuts had a better year in sales in 2018 compared to 2019.

In conclusion, we can observe that, just as with the case of Starbucks, Dunkin' Donuts is a good position regarding its competitors. Even though it has some very low ratios compared to their competitors, these are mostly due to their net equity. The one thing that stands out with Dunkin' Donuts is their low number of sales compared to their size, but the high amount of revenue margin. Here we can see that Dunkin' Donuts can obtain more paying less than their competitors but are not always able to sell with the expectations of what they have.

10. Conclusion

With this thesis, my objective was to analyse both these companies and later on compare them with each other and their sector of business. My intent was to analyse them from the perspective on an investor who might want to invest in one of these two companies and decide if it would be a wise decision.

For both companies I have seen that they are proceeding with their business and strategies in a prolific way. They operate in a similar way, placing emphasis on similar aspects of their finances (for example, a very low amount of short-term debt). And even though Starbucks has better results than Dunkin' Donuts in most aspects, it is expected as they are the bigger company.

The most interesting part of both these companies is how they handle their net equity, where they have a very low amount of capital and no reserves, and where they are also negative in most cases. This is most likely due to a very aggressive strategy where both companies pay high dividends to their shareholders at the cost of future security. While having low amounts of short-term debt and high amounts of accounts payable, both these companies are able to cover all their costs with just their revenue alone, obtaining higher profits at the end of the year, due to low costs, and thus higher dividends for their shareholders. This can be a dangerous strategy, because if there are several unexpected events it can cause big damage to the company as they do not have reserves to keep them afloat. One of these events in the COVID-19 crisis in 2020. Even though I was not able to analyse the year with the COVID crisis, I expect that it has caused worries in both companies.

So, in conclusion, from a business perspective I belief both companies are profitable and above most of their competitors, as seen in the analysis. And a very attractive option for a big investor to invest in, if they are not focused on a long-term secure investment.

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