Loftin Distribution - Evaluating Performance in a Slowing Economy

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Loftin Distribution* was an industrial distributor. Industrial distributors purchased a wide range of products from manufacturers and then sold these parts and provided related services to manufacturers, other businesses, and governments. For example, some industrial distributors specialized in electrical or plumbing parts and materials, while others sold fasteners. Loftin's managers described the company as a materials handling company: Loftin and its competitors sold pumps, conveyor belts, bearings, and other parts used by their customers to move materials from one place to another.[1]

Industrial Distribution

Industrial distribution customers were classified into two main categories: original equipment manufacturers (OEM), who put the parts into products they made, and maintenance, repair, and operations (MRO) customers, who used the parts, equipment, and services to maintain their facilities. An OEM customer might purchase bearings to put into the products it produced, and an MRO customer might buy bearings to use in maintaining its own equipment.

The performance of industrial distributors was sensitive to the overall business climate of its customers. Sales and profits for industrial distributors tended to track the U.S. Industrial Production Index and the Manufacturing Capacity Utilization index, which was published by the Federal Reserve Board. When the economy slowed, OEM customers ordered fewer component parts, while MRO customers did less maintenance and decreased their capital spending for equipment.[2]

The effects of recession and collapse of financial markets hit the sales volume and profitability of industrial distributors beginning late in 2008 and continuing through 2009. Sales to customers in mining and gas and oil industries, for example, dropped sharply; sales to customers in agriculture and food processing were less affected by the recession. Loftin's managers estimated that in 2009, MRO sales were down 10-12 percent industry-wide, and OEM sales were down more than 24 percent.[3]

Loftin's industry was highly fragmented. Its managers identified the company's main competitors as Applied Industrial Technologies (2009 sales, $1.9 billion), DXP Enterprises (2009 sales, $445 million), Kaman Industrial Technologies (2009 sales, $646 million), and Motion Industries (2009 sales, $2.9 billion)[4][5][6][7][8] These four plus Loftin (with 2009 sales of $100.4 million) represented about 15 percent of the industry; total sales for the industry as a whole generally were about $45 billion.[9] Many companies in the industry were quite small, with just one or a few locations. While the industry was still rather fragmented in 2009, there had been a move toward consolidation: over the previous several years, Loftin and its four larger competitors had grown primarily through acquisition of other industrial distributors. [10][11][12][13][14]

Industrial distributors such as Loftin typically acquired their inventory through non-exclusive agreements with manufacturers. Therefore, Loftin and some of its competitors carried similar assortments of products and brands. To encourage sale of their products, manufacturers offered their distributors incentive and rebate programs, generally based on the size of purchases. These incentives were critical to the profitability of a distributor because they could reduce the cost of goods sold, perhaps by 10 to 15 percent.[15] Manufacturers also supported the advertising programs of distributors, helping to pay for print ads, websites, and events (such as golf tournaments) for the distributors' customers.[16]

Generally, customers had maintained relationships with several distributors, buying a limited number or range of products from each. However, to reduce purchasing costs and improve inventory management, some customers began limiting the number of suppliers they dealt with.[17] This trend among customers contributed to the consolidation in the distribution industry as distributors sought to increase the breadth of their product lines.

Loftin Distribution

Loftin Distribution, headquartered in Dallas, Texas, was established in 1945 as an automotive wholesale business. It evolved into a bearings and power transmission business. In recent years, it had broadened its product offerings to increase the range of items it sold to its customers. Loftin served its customers from a total of 42 locations, most located in the eastern half of Texas.[18] See Tables 1 and 2 for a summaries of important information about Loftin. Appendix 1 contains financial statements for Loftin.

Loftin provided products and services to both OEM and MRO customers. Bob Loftin, the CEO, said that Loftin's customer was "anybody who makes anything," but most of the customers operated in the following industries:

- Aggregate (companies in cement, concrete, roadwork, mining)
- Oil and gas
- Industrial operations (such as car shredding)
- Agriculture and food processing
- Lumber
- Wastewater processing[19]

Table 1
Loftin Distribution.
Headquarters, Dallas Texas

Number of locations	42
Distribution of locations	Texas, Arkansas, New Mexico, Arizona, Louisiana, Utah
Number of employees	360
Sales for fiscal year 2009	$100.4 million
Number of SKU's in stock	28,000
Number of items it can sell	250,000
Customers' industries	Aggregate, food processing, oil and gas, lumber, waste water processing, car shredding
Example suppliers	Timken, Martin Engineering, Fenner Dunlop, Baldor, ABB, Eaton
Products and services	Bearings, seals, conveyor belts, motors, drives, shafts, bulk materials handling systems, gear reducers, pneumatic and hydraulic components

(Southwest Case Research Association, 2010)

Loftin's operations are structured in seven strategic business units (SBUs), as follows:

Table 2
Loftin's Strategic Business Units

SBU	Products and services
Loftin Bearing Service	Bearings, seals, power transmission components, and geared product
CapCorp Total Belting Solutions	Sale, installation, and repair of conveyor belts
Triad Industrial Automation	Motors, drives, sensors, and industrial controls
American Keyed and Custom Shafts	Plain, keyed, and custom shafts
U.S. Conveying Systems and Equipment	Bulk material handling systems, screw conveyors, and bucket elevators
National Mechanical Power Systems	Large gear reducers and other engineered products
HydraAir Fluid Power Products	Pneumatic and hydraulic components and full system design

(Southwest Case Research Association, 2010)

The SBUs were run by degreed engineers, allowing the company to offer more advanced service to its customers than its competitors.[20]

According to Loftin's managers, the average gross profit in the industry was 23 to 27 percent of sales; Loftin's gross profit usually was around 31 percent. To achieve this level of markup, the company had to provide excellent products and services. Loftin's managers classified product quality in the industry into four tiers, and they asserted that the products sold by Loftin were top tier. Virtually everything sold by Loftin came from US manufacturers because those products had the best reputation for quality.[21]

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Cameron Barker, Loftin's vice president for corporate operations, said that the company's intent was not to provide the lowest cost product, but rather "to provide the lowest cost of ownership to customers."[22] When an MRO customer needed an equipment repair, the greatest cost was not the purchase price for the parts; it was the production lost because of down time. Therefore, Loftin offered free delivery to its customers 24 hours per day, operating its own fleet of delivery trucks. Loftin also got product as close to the customer as it could, holding substantial inventory in the local markets. Loftin managers believed that carrying more inventory reduced inventory turnover but increased the company's gross profit percentage. [23]

Applied Industrial Technologies

Applied Industrial Technologies (AIT), which Loftin managers identified as a major competitor, was headquartered in Cleveland, Ohio. See Table 3 for more information about AIT. It was a larger company than Loftin, with 2009 sales of $1.9 billion. AIT had 460 locations, in 47 states, Puerto Rico, Mexico, and Canada, enabling it to serve large corporations that had locations spread across North America. Like Loftin, AIT made sales to both MRO and OEM customers.[24] AIT's financial statements are in Appendix 2 to this case.

AIT's management described the company as 'one of North America's leading distributors' of bearings, power transmission and fluid power components, conveyor belts, industrial rubber products, safety products, and general maintenance products. The company offered installation, field service, and repair services for many of its products.[25]

AIT sought to help customers minimize production downtime and reduce procurement and maintenance costs. It maintained product inventories at each of its locations tailored to the needs of local customers and emphasized timely delivery of products for customers making emergency repairs. AIT customers had access to an automated storeroom replenishment system, Applied STORE®. [26]

Table 3
Applied Industrial Technologies
Headquarters: Cleveland, Ohio

Number of locations	More than 460
Distribution of locations	47 states, Canada, Mexico, Puerto Rico. 22 of the locations are in Texas
Number of employees	4,700
Sales for fiscal year 2009	$1.9 billion
Number of SKU's	
Number of items it can sell	3,000,000
Customers' industries	Aggregate, automotive, government, HVAC, cement, mining, energy efficiency, petrochemical, ethanol production, pharmaceutical, power generation, food processing, wastewater treatment
Example suppliers	Timken, Dodge, 3M, Baldor, Eaton, Fenner
Products and services	Fluid power systems, equipment repairs, adhesives, bearings, hydraulics, pneumatics, safety products, industrial hose and fittings

(Applied Industrial Technologies, 2009 and 2010)

Assignment:

Read and study the case, including the Tables and financial statements, then answer the questions your instructor has assigned from the following list:

1. Loftin's income statement is more detailed than AIT's. The amount of detail on Loftin's income statement may be useful to the managers of the organization, but it makes comparison to other companies difficult. Prepare less detailed income statements for Loftin for the years 2009, 2008, and 2007, combining amounts and making other changes as necessary to make the income statements more comparable to those of AIT.

2. How are Loftin's financial statements affected by the fact that it is a partnership and not a corporation? Look at the balance sheets for Loftin and AIT; also compare the condensed income statements you prepared for question 1 to the income statements for AIT.

3. Appendix 3 includes formulas for many of the common ratios. The formulas are written for businesses organized as corporations. (For example, some of the formulas refer to dividends or stockholders' equity.) How would ratio analysis for Loftin be affected by the fact that it is a partnership? How might some of the formulas be adjusted so that they could be used for a partnership? What ratios could you calculate for Loftin?

4. Prepare analyses (ratio analyses and trend analysis) to compare Loftin's performance in 2009 to 2008 and then 2008 to 2007. How did the recession, which started late in 2008, affect the company's performance? What can you tell about changes Loftin's managers may have made in response to the recession?

5. Prepare analyses (ratio analyses and trend analysis) to compare AIT's performance in 2009 to 2008 and then 2008 to 2007. How did the recession, which started late in 2008, affect the company's performance? What can you tell about changes AIT's managers may have made in response to the recession?

6. Compare Loftin's performance in 2009, 2008, and 2007 to the results for AIT. In evaluating a company's performance, you may often look first at net income. However, Loftin is a partnership (and therefore, not a taxable entity), while AIT is a corporation (and must pay corporate income taxes). What amount(s) would you use from the income statement in comparing the two companies? Which company appears to have fared better during the recession?

7. Comparing a large company (such as AIT) to a smaller company (Loftin) can be difficult. Prepare common size income statements and balance sheets for both companies for 2009 and 2008. Look at the results. What have you learned from this analysis?

8. The Financial Accounting Standards Board has talked about the importance and value of information about a business's cash flows, but it asserts that the income statement does a better job of reporting a company's performance. After looking at the financial statements for AIT and Loftin, what do you think?

9. Motion Industries is an industrial distributor that competes against Loftin. It is a subsidiary of Genuine Parts Corporation, which prepares consolidated financial statements including all of its operations in various industries. It is required to disclose segment information for its various operating segments. Explain why the disclosure of segment information is required for public corporations. The financial information for Motion Industries is shown below, with amounts in thousands of dollars.

	2009	2008	2007	2006	2005
Net sales	$2,885,782	$3,514,661	$3,350,954	$3,107,593	$2,795,699
Operating profit	162,353	294,652	281,762	257,022	214,222
Assets	865,431	1,025,292	969,666	910,734	976,903
Depreciation and amortization	7,611	7,632	8,565	7,941	8,345
Capital expenditures	2,987	7,575	8,340	6,187	5,695

(Genuine Parts Company, 2009)

Use this information to make comparisons to Loftin or to AIT. How useful do you find this segment information to be?

10. Loftin's managers believe that its customer service allows it to earn a higher gross profit margin than its competitors. The managers also expect that Loftin may have slower inventory turnover because it keeps a large amount of inventory close to its customers.
    a) Compare Loftin's gross profit margin and inventory turnover to the amounts for AIT. Does Loftin have higher gross profit and lower inventory turnover?
    b) If Loftin's business model does result in higher gross profit and lower inventory turnover, what performance measure would you use to assess the attractiveness or desirability of Loftin's approach?

ENDNOTES

* The names of the company and its president have been disguised in this case; however, all other information about the company is factual.

[1] B. Loftin, interview, March 4, 2010.

[2] Kaman Corporation. Form 10-K Report for Fiscal Year 2009. Retrieved from http://www.sec.gov/Archives/edgar/data/54381/000114420410009923/v175071_10k.htm

[3] B. Loftin, interview, March 4, 2010.

[4] C. Barker, interview, 2010.

[5]Applied Industrial Technologies (2009). *10-K Report for Fiscal Year 2009.* Retrieved from http://www.sec.gov/Archives/edgar/data/109563/000095012309036454/0000950123-09-036454-index.htm

[6] DXP Enterprises. 1*0-K Report for Fiscal Year 2009.* Retrieved from http://www.sec.gov/Archives/edgar/data/1020710/000102071010000026/form10k_2009.htm

[7] Kaman Corporation (2009).

[8] Genuine Parts Company (2009). *Annual Report 2009*. Retrieved from http://phx.corporate-ir.net/phoenix.zhtml?c=98901&p=irol-reportsAnnual

[9] B. Loftin, interview, March 4, 2010.

[10] B. Loftin, interview, March 4, 2010;

[11] Applied Industrial Technologies (2009).

[12]DXP Enterprises (2009).

[13] Genuine Parts Company. (2009)

[14] Kaman Corporation (2010).

[15] C. Barker, interview, March 4, 2010.

[16] S. Mikkelsen, interview, March 4, 2010.

[17] Avery, Susan (2009) All's well, if the price is right. *Industrial Distribution*, July/August, 2009, 34-37.

[18] Southwest Case Research Association (2010). Southwest Case Research Association Case Writing Competition, Dallas, Texas, March 4, 2010.

[19] B. Loftin, interview, March 4, 2010.

[20] B. Loftin, interview, March 4, 2010.

[21] C. Barker, interview, March 4, 2010.

[22] C. Barker, interview, March 4, 2010.

[23] B. Loftin, interview, March 4, 2010.

[24] Applied Industrial Technologies (2009).

[25] Applied Industrial Technologies (2010). *Corporate Overview.* Retrieved from http://web.applied.com/site.cfm/about.cfm

[26] Applied Industrial Technologies (2010).

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DXP Enterprises. 1*0-K Report for Fiscal Year 2009.* Retrieved from http://www.sec.gov/Archives/edgar/data/1020710/000102071010000026/form10k_2009.htm

Genuine Parts Company. *Annual Report 2009*. Retrieved from http://phx.corporate-ir.net/phoenix.zhtml?c=98901&p=irol-reportsAnnual
Kaman Corporation. *Form 10-K Report for Fiscal Year 2009,* Retrieved from http://www.sec.gov/Archives/edgar/data/54381/000114420410009923/v175071_10k.htm

Southwest Case Research Association (2010). Southwest Case Research Association Case Writing Competition. Dallas, Texas. March 4, 2010.

Appendix 1
Financial Statements for Loftin Distribution
Income Statements

For Yrs Ended 12/31	**2009**	**2008**	**2007**
Revenues, net	$ 100,355,957	$ 122,253,475	$ 117,534,228
Cost of goods sold	68,666,757	82,619,072	79,815,443
Gross profit	$ 31,689,200	$ 39,634,403	$ 37,718,785
Operating expenses			
Accounting	$ 110,737	$ 114,177	$ 98,086
Advertising	77,577	9,352	22,010
Consulting fees	56,109	111,293	141,616
Auto gas	521,632	763,027	635,401
Auto reimbursement	(1,465)	(9,492)	2,201
Auto repair	142,174	149,858	143,197
Auto taxes	39,372	26,446	15,880
Bank charges	63,645	57,525	47,977
Building rent	845,565	738,665	720,810
Building repair	76,996	132,274	100,488
Credit card	273,592	257,734	242,673
Computer	22,686	19,243	24,029
Data processing	586,220	410,145	348,201
Depreciation	1,058,390	955,002	844,809
Donations	4,848	4,565	
Dues & subscriptions	24,992	8,856	8,000
Insurance – auto	102,362	98,082	80,060
Insurance - commercial	81,028	96,264	85,172
Insurance – health	1,089,547	1,064,477	1,362,175
Insurance - employers	78,455	59,363	71,828
Interest	26,793	28,073	154,431
Legal	25,300	58,605	55,734
Management fees & expenses	8,000	4,000	
Meals & entertainment	183,008	160,339	148,911
Office supplies	220,245	169,129	178,087
Warehouse supplies	115,265	130,343	95,900
Mail processing & postage	72,326	77,174	90,670

Other administrative	11,858	21,315	15,502
Rent	12,329	11,257	24,749
Repairs	94,607	130,772	166,740
Salaries	15,961,670	15,664,936	14,284,314
401K contributions	105,197	158,200	151,700
State taxes	135,501	181,139	150,623
Payroll taxes	1,260,213	1,131,491	1,062,093
Property taxes	451,803	460,022	378,175
Security	8,213	12,381	387
Temporaries	304,992	600,014	654,875
Sales taxes	116,876	87,422	139,160
Telephone – local	155,556	133,869	132,311
Telephone - long distance	54,378	58,680	50,634
Pagers	2,258	3,651	5,400
Cell phones	75,259	64,244	55,795
Travel	194,974	143,546	125,189
Utilities	380,040	361,833	329,659
Total operating expense	$ 25,231,123	$ 24,919,291	$ 23,445,652
Other income/expenses	66,774	304,720	68,122
Net income	$ 6,524,851	$ 15,019,833	$ 14,341,256

Balance Sheets

As of 12/31	**2009**	**2008**	**2007**
Assets			
Cash	$ 4,271,723	$ 1,374,674	$ 763,390
Accounts receivable	10,702,149	14,780,455	13,198,212
Inventory	23,483,785	26,315,348	20,890,168
Notes receivable	312,899	323,683	119,054
Total current assets	38,770,556	42,794,160	34,970,824
Fixed assets, net	12,637,996	11,153,517	9,277,307
Deposits	28,142	24,441	34,524
Intangibles	2,890,901	2,506,720	77,720
Total noncurrent assets	15,557,039	13,684,678	9,389,551
Total assets	$ 54,327,595	$ 56,478,838	$ 44,360,375

Liabilities and equity			
Current liabilities			
Accounts payable	$ 3,640,179	$ 5,063,743	$ 4,532,156
Cash overdraft*	0	99,144	149,471
Accrued expenses	1,381,140	1,988,432	1,511,698
Line of credit	0	3,295,502	1,547,126
Other payables	36,103	31,392	32,717
Total current liabilities	5,057,422	10,478,213	7,773,168
Noncurrent liabilities			
Notes payable to related party	247,932	322,290	391,787
Notes payable	150,000	40,000	251,685
Other	0	100,000	0
Total noncurrent liabilities	397,932	462,290	643,472
Partners' capital	48,872,241	45,538,335	35,943,735
Total liabilities and partners' capital	$ 54,327,595	$ 56,478,838	$ 44,360,375

*****Loftin had a line of credit with its bank These bank overdrafts represented amounts of checks that Loftin had written but that had not yet reached its bank. When the checks did reach the bank, the bank covered the checks and added these amounts to Loftin's balance on the line of credit.

Statements of Cash Flows

For the years ended December 31	**2009**	**2008**	**2007**
Cash flows from operating activities			
Net income	$ 6,524,851	$ 15,019,833	$ 14,341,256
Add (deduct) noncash items			
Bad debt expense	206,568	91,114	119,529
Depreciation & amortization	1,058,390	955,002	844,809
Gain on sale of property	(31,496)	(217,333)	(60,715)
Cash provided by working capital components			
Accounts receivable	3,871,738	(1,016,133)	(995,760)

Inventories	2,831,563	(4,115,226)	(2,610,594)
Prepaid expenses, deposits, and other assets	7,084	(194,547)	6,935
Intangible assets	0	0	(1,000)
Accounts payable and overdraft	(1,423,564)	531,587	387,571
Accrued expenses	(602,581)	425,082	252,394
Net cash provided by operating activities	$ 12,442,553	$ 11,479,159	$ 12,284,425
Cash flows from investing activities			
Purchases of property, plant, and equipment	$ (2,592,607)	$ (3,054,757)	$ (2,474,535)
Proceeds from sale of assets	81,234	591,878	93,861
Cash used for business acquisitions	(383,181)	(4,446,958)	0
Net cash used in investing activities	$ (2,894,554)	$ (6,909,837)	$ (2,380,674)
Cash flows from financing activities			
Proceeds from notes payable and line of credit	$ 5,311,129	$ 6,489,670	$ 24,163,678
Repayments of notes payable and line of credit	(8,770,133)	(5,022,476)	(28,086,498)
Distributions to partners	(3,191,945)	(5,425,233)	(5,654,454)
Net cash used in financing activities	$ (6,650,949)	$ (3,958,039)	$ (9,577,274)
Net increase in cash	$ 2,897,050	$ 611,283	$ 326,477
Cash and cash equivalents, beginning of year	1,374,673	763,390	436,914
Cash and cash equivalents, end of year	$ 4,271,723	$ 1,374,673	$ 763,391

(Southwest Case Research, 2010)

Appendix 2
Financial Statements for Applied Industrial Technologies
(amounts in thousands except per-share amounts)

Statements of Consolidated Income			
Year Ended June 30,	**2009**	**2008**	**2007**
Net Sales	$1,923,148	$2,089,456	$ 2,014,109
Cost of Sales	1,403,138	1,520,173	1,466,057
Gross Margin	520,010	569,283	548,052
Selling, Distribution and Administrative	410,912	416,459	413,041
Goodwill Impairment	36,605		
Operating Income	72,493	152,824	135,011
Interest Expense	5,523	4,939	5,798
Interest Income	(1,099)	(4,057)	(3,438)
Other Expense (Income)	2,255	227	(1,179)
Net Other Income	6,679	1,109	1,181
Income Before Income Taxes	65,814	151,715	133,830
Income Tax Expense	23,554	56,259	47,808
Net Income	$ 42,260	$ 95,456	$ 86,022
Net Income Per Share – Basic	$1.00	$ 2.23	$ 1.97
Net Income Per Share - Diluted	$ 0.99	$ 2.19	$ 1.93

Consolidated Balance Sheet		
June 30,	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 27,642	$ 101,830
Accounts receivable, net	198,792	245,119
Inventories	254,690	210,723
Other current assets	44,470	48,525
Total current assets	525,594	606,197
Property - net	62,735	64,997
Goodwill	63,108	64,685
Intangibles, net	95,832	19,164
Other assets	62,059	43,728
Total Assets	$ 809,328	$ 798,771
Liabilities		
Current liabilities		
Accounts payable	$ 80,655	$ 109,822
Short-term debt	5,000	
Compensation and related benefits	34,695	56,172
Other current liabilities	36,206	31,017
Total current liabilities	156,556	197,011
Long-term debt	75,000	25,000
Postemployment benefits	43,186	37,746
Other liabilities	26,484	36,939
Total Liabilities	301,226	296,696
Shareholders' Equity		
Preferred stock - no par value;		
2,500 shares authorized;		
none issued or outstanding		
Common stock - no par value;		
80,000 shares authorized;		
54,213 shares issued	10,000	10,000
Additional paid-in capital	136,895	133,078
Income retained for use in the business	560,574	543,692
Treasury shares - at cost		
(11,929 and 11,923 shares)	(191,518)	(190,944)
Accumulated other comprehensive		
income (loss)	(7,849)	6,249
Total Shareholders' Equity	508,102	502,075
Total Liab. & Shareholders' Equity	$ 809,328	$ 798,771

Consolidated Statement of Cash Flows			
Year Ended June 30,	2009	2008	2007
Cash Flows from Operating Activities			
Net income	$ 42,260	$ 95,456	$ 86,022
Adjustments to reconcile net income			
to net cash provided by operating activities:			
Goodwill impairment	36,605		
Deferred income taxes	(16,648)	(5,809)	(6,424)
Depreciation	12,736	12,776	13,489
Amortization of intangibles	9,655	1,663	1,045
Provision for losses on accounts receivable	4,540	2,595	1,462
Share-based compensation	4,092	3,376	2,927
Unrealized foreign exchange transaction losses	806		
Treasury shares contributed to employee benefit			
and deferred compensation plans	410	812	1,921
Gain on sale of property	(320)	(1,214)	(334)
Amortization of gain on interest rate			
swap terminations		(395)	(791)
Changes in assets and liabilities,			
net of acquisitions:			
Accounts receivable	63,929	8,306	(17,415)
Inventories	(20,581)	(1,484)	(7,934)
Other operating assets	6,858	(13,950)	(1,369)
Accounts payable	(38,124)	11,881	(12,220)
Other operating liabilities	(24,918)	3,710)	10,546
Net Cash provided by Operating Activities	81,300	110,303	70,925
Cash Flows from Investing Activities			
Property purchases	(6,988)	(8,410)	(11,192)
Proceeds from property sales	757	1,372	1,275
Net cash paid for acquisition of businesses,			
net of cash acquired of $185 and $2,355			
in 2009 and 2008, respectively			
	(172,199)	(22,105)	
Other		2,304	(302)
Net Cash used in Investing Activities	(178,430)	(26,839)	(10,219)
Cash Flows from Financing Activities			
Net short-term borrowings under			
revolving credit facility	5,000		
Borrowings under revolving			
credit facility classified as long-term	50,000		
Long-term debt repayment		(50,000)	

Purchases of treasury shares	(1,210)	(33,224)	(33,988)
Dividends paid	(25,378)	(25,728)	(20,970)
Excess tax benefits from share-based			
Compensation	802	3,761	3,885
Exercise of stock options and			
appreciation rights	408	1,664	2,663
Other	(1,120)		
Net Cash provided by (used in) Financing			
Activities	28,502	(103,527)	(48,410)
Effect of Exchange Rate Changes on Cash	(5,560)	2,228	941
(Decrease) increase in cash and cash equivalents	(74,188)	(17,835)	13,237
Cash and cash equivalents at beginning of year	101,830	119,665	106,428
Cash and Cash Equivalents at End of Year	$ 27,642	$ 101,830	$119,665
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	$ 43,081	$ 60,049	$ 42,857
Interest	$ 5,265	$ 4,763	$ 5,488

(Applied Industrial Technologies, 2009)

Appendix 3
Ratio Formulas

Ratio type or name of ratio	Ratio formula	Interpretation of ratio
Liquidity		
Current ratio	Total current assets / Total current liabilities	Measures company's short-term debt paying ability
Acid test (quick) ratio	(Cash + marketable securities + current receivables)/Total current liabilities	Measures company's debt paying ability in the very short term (ability to meet current liabilities without selling inventory)
Working capital	Total current assets – total current liabilities	Measures short-term debt paying ability
Profitability		
Gross margin percentage	Gross margin/Sales	A measure of profitability – how much of each sales dollar remains after covering cost of goods sold?
Operating profit margin	Income from operations/Sales	A measure of profitability – for each sales dollar, how much is operating profit?
Margin	Net income/Sales	A measure of profitability – of each sales dollar, how much is net income?
Earnings per share	(Net income – preferred dividends)/ Average number of common shares outstanding	Amount of net income per common share
Price-earnings ratio	Market price per share/Earnings per share	A measure of how "the market" values a stock
Dividend payout ratio	Dividends per share/Earnings per share	The fraction of a company's income that it pays out in dividends
Dividend yield ratio	Dividends per share/Market price per share	Measures the cash return from dividends on a share of stock
Return on total assets	(Net income + interest expense x [1 – tax rate])/Total assets	Measures the rate of return on a company's assets – how well assets have been used by managers to earn income

Return on common stockholders' equity	(Net income – preferred dividends)/(Total stockholders' equity – preferred stock)	Measures the rate of return on amount invested by common stockholders. A comparison to return on total assets indicates how well the company has used leverage (debt)
Leverage or debt ratios		
Debt to assets	Total liabilities/total assets	What fraction of assets was financed by borrowing?
Debt to equity	Total liabilities/total stockholders' equity	Compares the share of a company's assets financed through debt with the share financed by stockholders
Times interest earned	Earnings before interest expense and taxes/interest expense	Measures a company's ability to cover (meet) its interest expense from earnings of the period
Activity (asset management) ratios		
Accounts receivable turnover	Sales on account/Accounts receivable balance	A measure of how many times accounts receivable turn over (are collected) during a year
Average collection period for accounts receivable	365 days/Accounts receivable turnover	Estimate for average number of days required to collect receivables
Inventory turnover	Cost of goods sold/Inventory balance	Measures how many times inventory turns over (is sold) during a year
Average sale period	365/Inventory turnover	Estimates the number of days required to sell inventory
Asset turnover	Sales/total assets	A measure for how effectively a company uses its assets to generate revenues

(Compiled by authors.)