Financial Ratios

Name

Institution

Financial Ratios

Return on Equity Ration: Coca Cola Co. and PepsiCo Inc.

Coca-Cola Co. PepsiCo Inc.

ROE	Net Profit Margin	Asset Turnover	Equity Ratio	ROE	Net Profit Margin	Asset Turnover	Equity Ratio
= Net Income/ Shareholders' Equity = 7.35B/25.55Bx100 = 28.77%	= Net profit/Revenue = 7.35B/ 43.65B x 100 = 16.84%	= Sales/Revenues/Total Assets = 43.65B/90.09B = 0.49	= Total Liabilities (D)/ Stockholders' Equity (E) = 64.33B/ 25.55B = 2.52	= Net Income / Shareholders' Equity = 5.45B/11.92B = 45.72%	= Net profit/Revenue = 5.45B/ 63.05B x 100 = 8.64%	= Sales/Revenues/Total Assets = 63.05B/69.67B = 0.91	= Total Liabilities (D)/ Stockholders' Equity (E) = 57.64B/ 11.92B = 4.84
26.66%	12.38%	0.1	1.69	26.66%	12.38%	0.1	1.69

Market Value Ratios: Coca Cola Co. and PepsiCo Inc.

Coca-Cola Co. PepsiCo Inc.

Price -Earnings (P/E) Ratio	Price –Book Ratio	Price -Earnings (P/E) Ratio	Price –Book Ratio
= Price per share/ Earnings per share	= Price per Share/Book Value per	= Price per share/ Earnings per share	= Price per Share/Book Value

= 41.16/1.70 = 26.01%	share = 41.16/ 5.90 = 7.48	= 96.90/3.77 = 25.72%	per share = 96.90/8.25 = 11.75
Industry average = 23.45	Industry average = 8.42	Industry average = 23.45	Industry average = 8.42

Analysis

The data for the financial ratios are based on the financial year 2014/15 for both Coca-Cola Co. and PepsiCo Inc., which are direct competitors and big players in the non-alcoholic beverages industry (Michael & Pizzica, 2015). The net profit margin reflects the amount a company retains after paying off all operating expenses, interest, taxes, and preferred stock dividends from its total revenue. Coca-Cola Co. has higher net profit margins than its competitor PepsiCo does.

Asset turnover measures the degree to which a business utilizes its assets efficiently to generate more revenues from its daily operations (Palat, 2006). On asset turnover, PepsiCo has 0.91 compared to Coca-Cola's 0.49, indicating that the efficiency with PepsiCo. utilizes its assets to generating revenue is better than Coca-Cola's.

Debt/Equity ratio shows the extent of a company's financial borrowing, the capital structure of business. It just measures the degree to which a company finances its operations using debts (Palat, 2006). PepsiCo. has an equity ratio of 4.84 compared to the Coca-Cola's 2.52, a trend that indicates that the former company is more indebted than the latter.

Interestingly, despite Coca-Cola's high net profit margin, PepsiCo. has a higher return on equity (ROE) than Coca-Cola Co. This is because it has a higher financial leverage than Coca-Cola Co. which is reflected in its higher debt/equity ratio against Coca-Cola Co. In addition, PepsiCo Inc. derived its substantial financial leverage position from its higher asset turnover and equity ratio, all critical components of return on equity (ROE) (Leach, 2010). PepsiCo Inc. has borrowed much debt than Coca-Cola, giving it an upper hand in attaining a stronger financial leverage position than its direct competitor.

Notably, for a company to improve its leverage position, it has two options: (1) by setting pace for attaining a higher return on assets as PepsiCo Inc. does, and (2) by using its debt effectively to achieve better results (Michael & Pizzica, 2015). Nonetheless, the hidden secret for PepsiCo Inc. is that its higher financial leverage to earn a higher return on its assets compared the cost of its debt. Also important to note is the aspect that the net profit margin for PepsiCo Inc. is a reflection of a company that pays more expenses than its straight opponent in the industry.

However, both companies' return on assets, return on equity, equity ratio, as well as net profit margins are high and above the sector averages. Such high levels indicate that as top leaders in the industry, they are all performing fairly well. Besides, the fact that PepsiCo Inc. has higher ROE than Coca-Cola Co. makes the former more attractive for investors as higher ROE indicates higher dividends for future dates.

Coca-Cola Co. has a higher price-earnings ratio than PepsiCo Inc. However, PepsiCo Inc. has a higher price to book value than Coca-Cola Co. The implication is that the price per share and book values of PepsiCo Inc. are superior to that of Coca-Cola. For instance, whereas Coca-Cola Co. has a price per share of $ 41.16 and a book value of $ 1.70, PepsiCo Inc. has the price per share of $ 96.90 and a book value of $ 8.25, putting it in a better financial picture (Leach, 2010). Price-book ratio of Coca-Cola Co. falls below the industry

average, showing a warning sign for the company even though its P/E ratio is above the sector average.

References

Leach, R. (2010). *Ratios made simple: A beginner's guide to the key financial ratios*. Petersfield, Hampshire: Harriman House.

Michael, R., & Pizzica, A.J. (2015). *Financial ratios for executives: How to assess company strength, fix problems, and make better decisions*. Berkeley, CA: Apress.

Palat, R.R. (2006). *Understanding financial ratios in business: A practical guide for business finance & banking*. Mumbai: Jaico Pub. House.

Appendix

Links for the Financials and Other Statistics

http://csimarket.com/Industry/industry_Financial_Strength_Ratios.php?ind=502

http://www.marketwatch.com/investing/Stock/KO/financials?CountryCode=US

http://www.marketwatch.com/investing/Stock/PEP/financials?CountryCode=US

http://csimarket.com/Industry/Industry_Profitability.php?ind=502