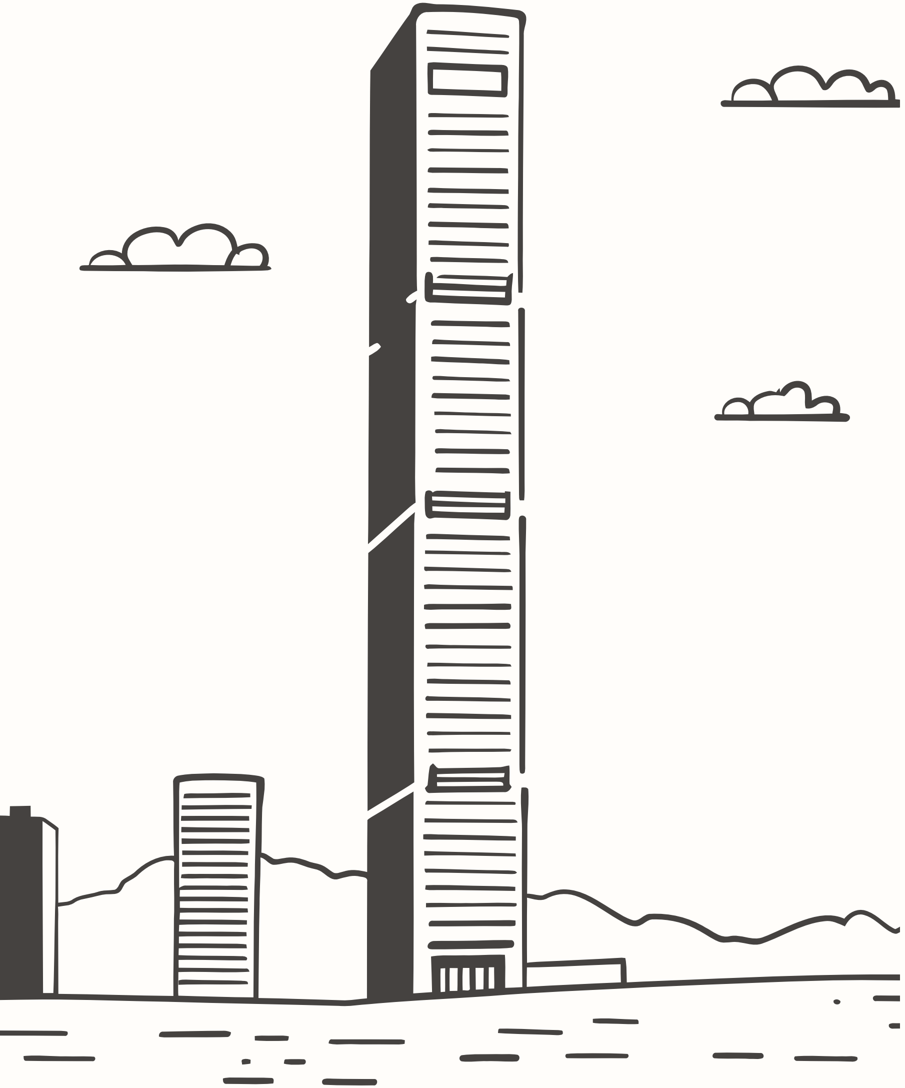


Module 6 Financial Statement Analysis

Mastering Horizontal and Vertical Analysis

The Strategic Consultant's Toolkit — From Bookkeeper to Elite Corporate Advisor

C-AE24 | STRATEGIC BUSINESS ANALYSIS

Rosalinda E. Perez

Welcome to the Boardroom

Look left. Look right. You are no longer students drowning in debits and credits.

Today, you are Junior Strategic Consultants at a top-tier global advisory firm.

Our Client

Jollibee Foods Corporation (JFC)

Food service titan — nearly **10,000 stores** globally

Our Mission Today

We are not here to verify if accounts balance. We are here to **unleash two lethal weapons** from our analytical arsenal.

Horizontal Analysis	Vertical Analysis
Expose JFC's financial velocity across time	Decrypt JFC's operational DNA and structural anatomy

Mission: Drive **high-stakes executive decisions** — not compliance checkboxes.

PART 1

Horizontal Analysis: The Corporate Movie 🎞️

Tracking Historical Performance Velocity Across Time

Core Definition

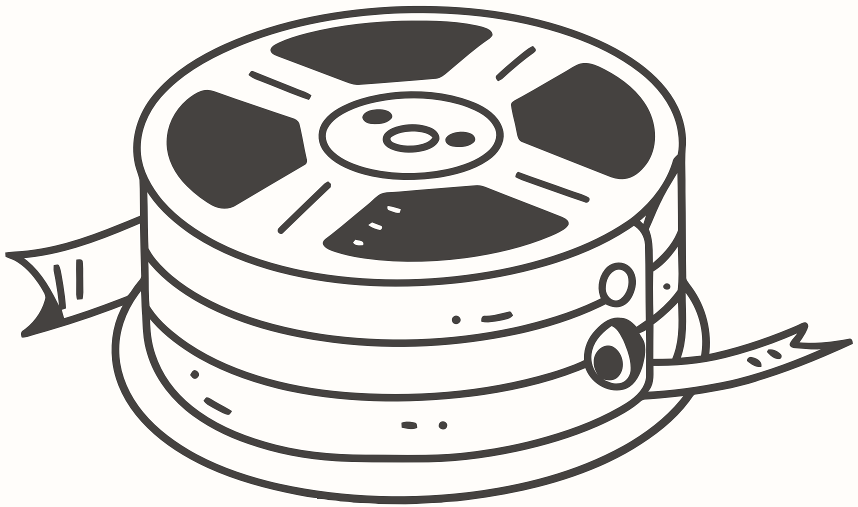
Also known as **Trend Analysis** — evaluates financial data side-by-side across consecutive periods

The Analogy

Not a frozen snapshot — it is the **corporate movie** showing performance velocity and momentum

Core Outcome

Isolate changes, growth rates, operational trajectories, and **structural anomalies**



The Mechanics & Base Year Law

The Two Formulas

Absolute Change

Current Year **minus** Base Year

Relative Change (%)

Peso Change ÷ Base Year × 100

⚠ The Base Year is **ALWAYS** the oldest period. Dividing by the current year invalidates the entire analysis.

Why Percentages Beat Raw Pesos

A local bakery grows ₱1M revenue → **+100% growth**

JFC grows ₱1M revenue → **a rounding error**

Raw pesos tell you the **size of the beast**. Percentages tell you **how fast it is running.**

JFC CASE STUDY

Top-Line Velocity: FY 2023 vs. FY 2024

Decrypting the Quality of Revenue Growth

Financial Metric (₱ Millions)	FY 2023 (Base)	FY 2024 (Current)	Absolute Change	% Velocity
Gross Sales	₱232,474.4	₱254,957.7	+₱22,483.3M	**+9.67%**
System-Wide Sales (SWS)	₱345,400.0	₱390,300.0	+₱44,900.0M	**+13.00%**
Total Consolidated Revenues	Baseline	Current	—	**+10.60%**

🔬 SSSG Diagnostic

Philippine Same-Store Sales Growth: +7.5% — driven by **volume (+7.2%)**, not price hikes (+0.3%). Real, accelerating demand.

⚠️ M&A Distortion Alert

International SWS explosion driven by acquisition of South Korea's **Compose Coffee** — adding **2,629 stores overnight**. Isolate inorganic spikes from organic trends.

Isolating Signals from the Noise

1 Historic Milestone

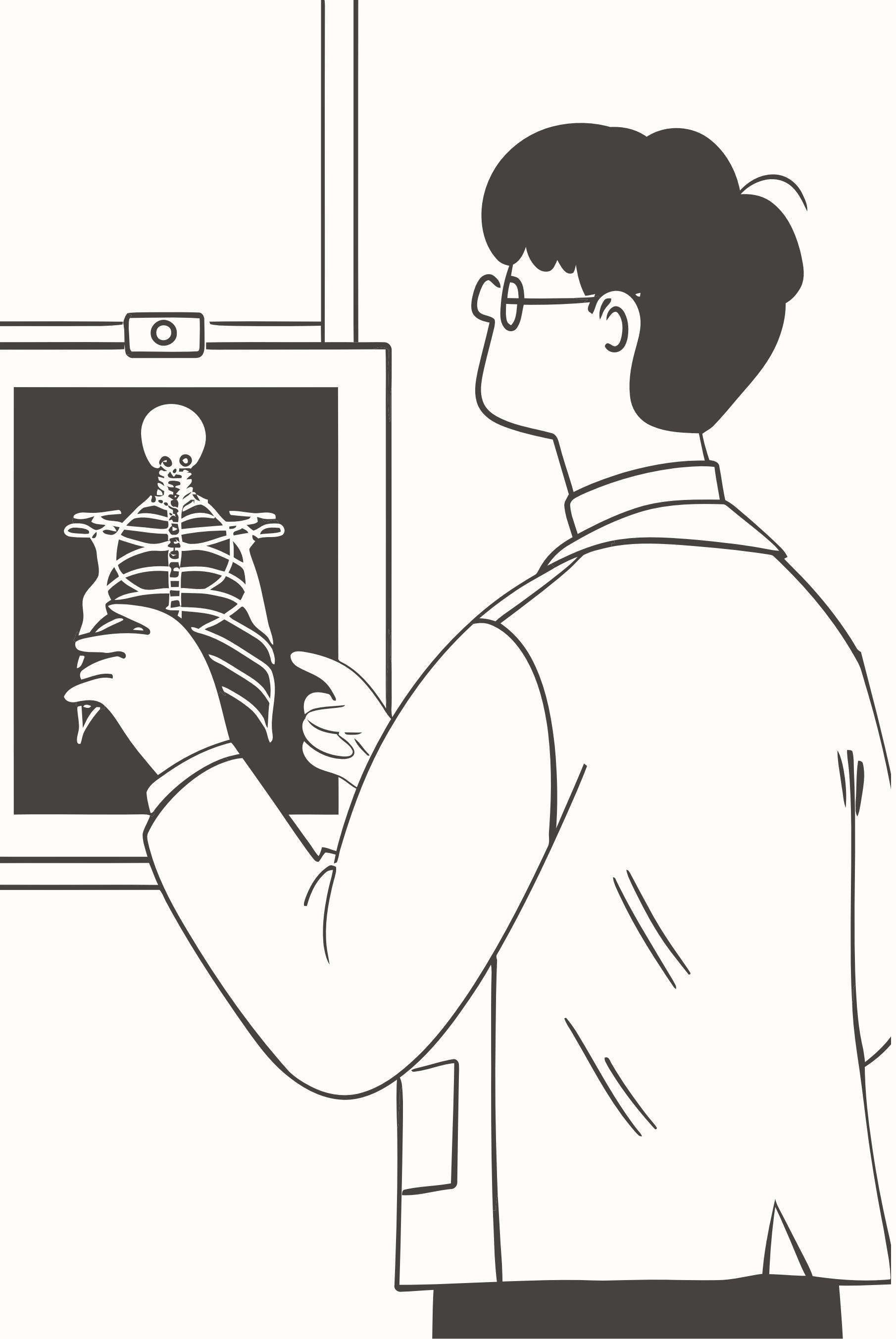
JFC net profit breached **₱10 Billion** for the first time in FY 2024

2 Quality of Growth

7.5% SSSG was **volume-driven (7.2%)** — real demand, not inflation-masked pricing

3 The Analyst's Obligation

Always isolate **inorganic acquisition spikes** from core organic operations — or your trend lines will lie



PART 2

Vertical Analysis: The Structural "X-Ray"

Decoding the Operational Anatomy and Financial DNA

Core Definition

Common-Size Financial Modeling — each line item as a % of a single baseline anchor

Direction

Horizontal looks **sideways across time**. Vertical looks **straight down within one period**.

The Ultimate Question

For every peso flowing in — **where does every centavo go?**

Precision Anchors & Basis Points

Denominator Anchors — Non-Negotiable

Income Statement

Total Consolidated Revenues = 100%

Every expense line divided by this

Balance Sheet

Total Assets = 100%

Every line divided by this

Speak in Basis Points (bps)

1 basis point = **0.01%**

Don't say: *"Gross margin expanded by 0.6%"*

Say: *"**Gross margin expanded +60 bps**"*

This is the language that separates **analysts from bookkeepers.**

JFC CASE STUDY

Common-Size Diagnostic Matrix

Stripping Away Raw Peso Complexity to Expose Margin Efficiency

Income Statement Line Item	FY 2023 %	FY 2024 %	Shift (bps)	Strategic Verdict
Total Consolidated Revenues	100.0%	100.0%	—	The Baseline Anchor
Cost of Sales (COGS)	81.4%	80.8%	**↓ 60 bps**	Procurement scale & commissary efficiency
Gross Profit Margin	18.6%	19.2%	**↑ 60 bps**	Strong pricing power over inflation
Operating Expenses (OPEX)	~12.7%	~12.9%	**+20 bps**	Exceptional scaling despite 41% store rollout
Operating Income Margin	5.9%	6.3%	**↑ 40 bps**	✅ Positive Operating Leverage achieved

The Income Statement Verdict

What a Compliance Accountant Sees

A 0.6% drop in Cost of Sales. Shrugs.

What a Strategic Consultant Sees

60 bps contraction = global procurement scale commanding superior supplier pricing across thousands of stores

Positive Operating Leverage — Proven

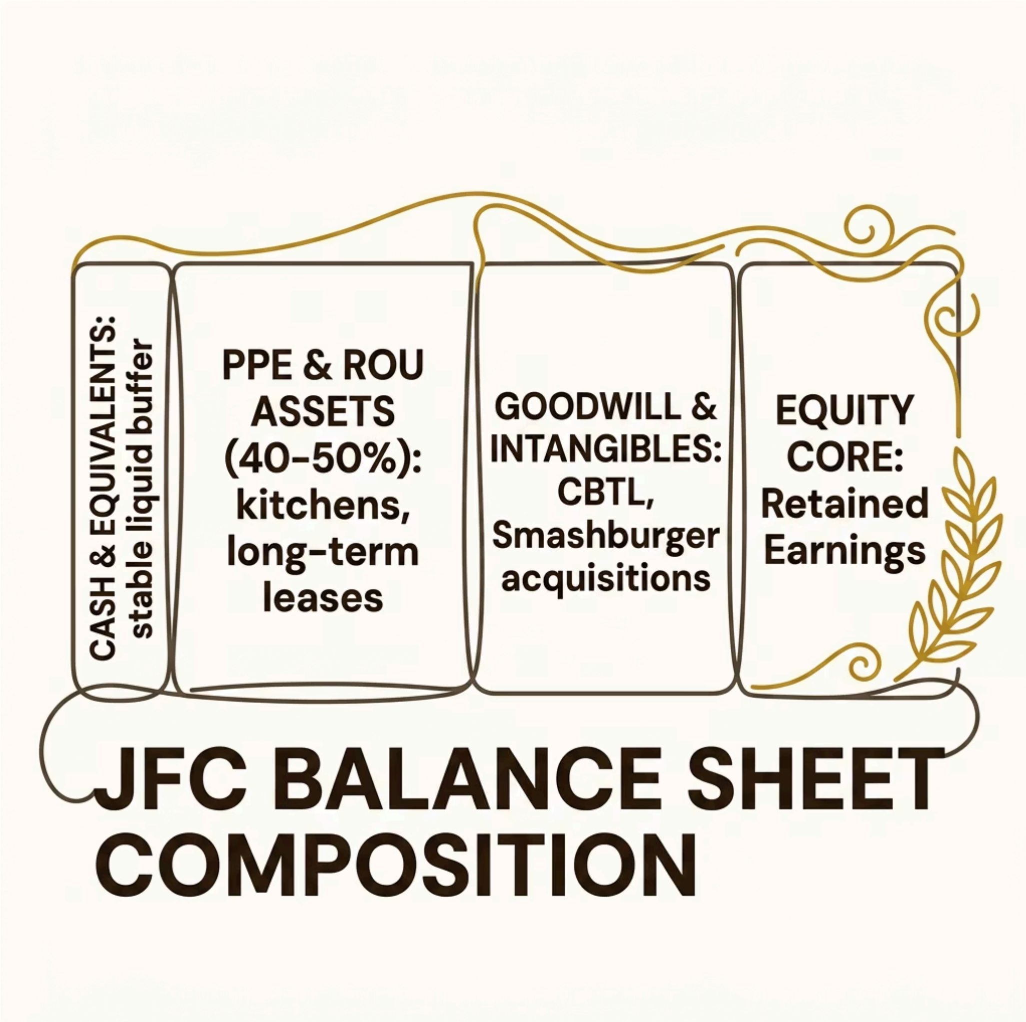
- Store footprint expanded **41.8%** in one year
- Common-size OPEX remained **virtually flat** (+20 bps)
- Gross margins **expanded** simultaneously

Revenue is outrunning costs. Fixed overhead is spreading beautifully across a growing international base.

BALANCE SHEET DEEP DIVE

Common-Size Balance Sheet: Structural Survival 🛡️

Testing Resource Backing, Liquidity, and Funding Capital



Key Vertical Layers

💧 Liquid Buffer

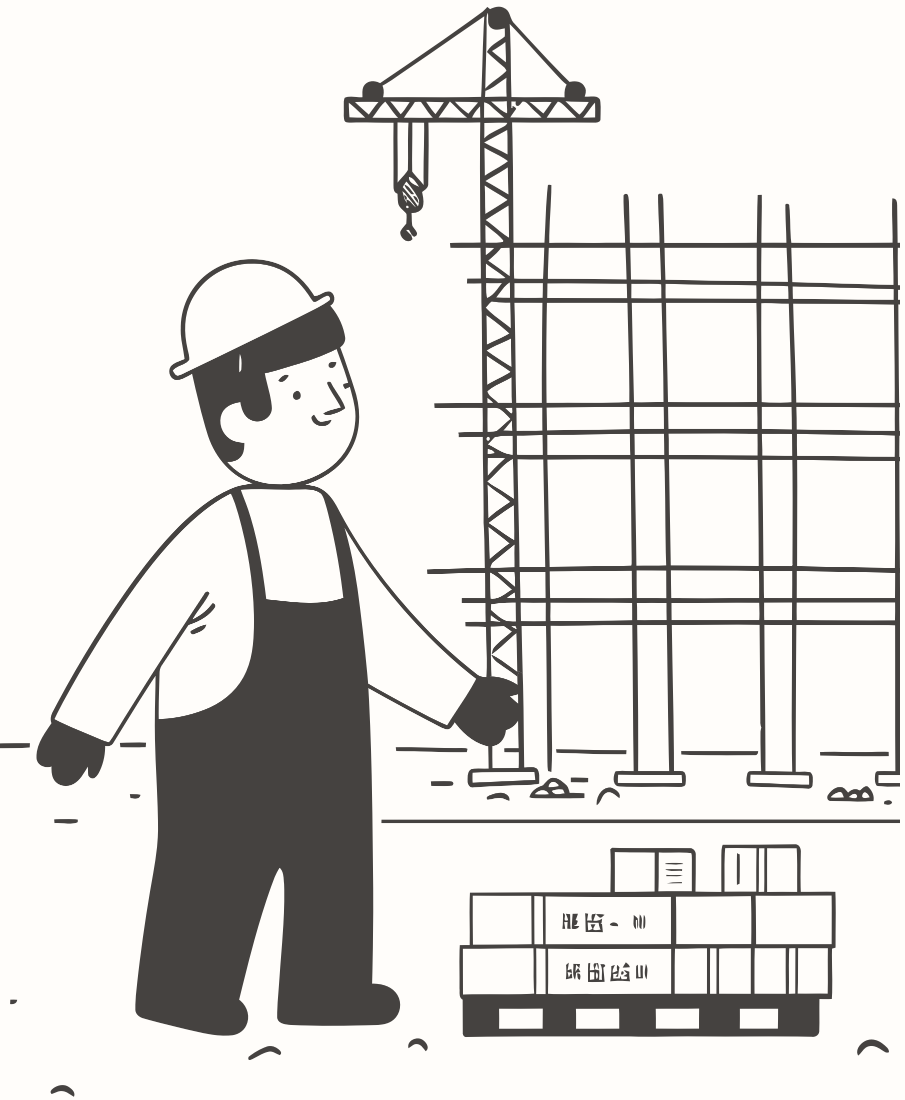
Cash & equivalents maintain a **stable vertical layer** — working capital unclogged despite rapid expansion

🏗️ Infrastructure Layer

PPE & ROU Assets = **40–50%+ of total assets** — thousands of store kitchens and long-term leases

🌐 M&A Footprint

Goodwill & Intangibles — direct structural consequence of acquiring **CBTL and Smashburger**



Capital Stacking: How JFC Funds Its Empire

The Rule

A company can look highly profitable and still **collapse overnight** if its balance sheet is structurally broken

The Funding Source

Retained Earnings remain the dominant core — organic, self-funded capital stacking

The Strategic Verdict

No dilutive share issuances. No crushing bank debt. **Maximum credibility with international investment funds.**

Income Statement = Velocity. Balance Sheet = Structural Survival. Analyze **both**.

THE CONSULTANT'S RADAR

Scanning for Financial Leaks 🔍

High-Impact Framework for Cross-Sectional & Trend Benchmarking

⚠️ Anomaly 1: Inventory Rot

Rising Inventory % + Falling Net Margin %

= Product spoilage and waste expanding across commissaries

⚠️ Anomaly 2: Bureaucratic Bloat

Expanding OPEX % + Flat Gross Margin %

= Corporate overhead growing faster than revenue — inefficient scaling

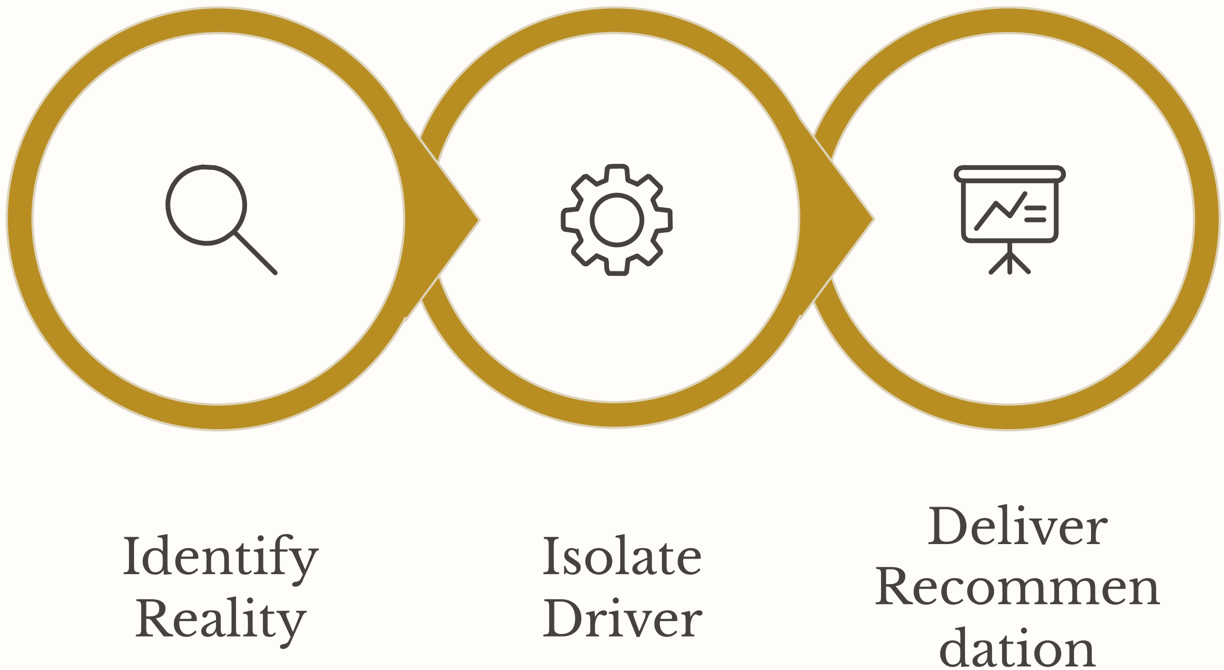
⚠️ Anomaly 3: Acquisition Overpay

Spiking Goodwill % + Contracting International Margins

= Management overpaying for underperforming foreign brands — impairment hits imminent

From Data to Boardroom Action

Executive leadership does not pay you to **read numbers off a page.** They pay you to translate numbers into **high-impact decisions.**



> *"JFC's common-size COGS contracted 60 bps due to global procurement scaling. We recommend accelerating this asset-light supply chain model across the newly acquired Korean network to lock in this structural advantage."*

You Have the Weapons. Now Conquer the Data.

Horizontal Analysis

Track velocity. Isolate organic growth. Expose M&A distortions.

Vertical Analysis

Strip peso complexity. Speak in basis points. Expose the anatomy.

Strategic Action

Find the leaks before they sink the quarter. Drive the recommendation.

BSA Auditors. BSAIS Systems Analysts. The boardroom is waiting. 🚀

Key Takeaways

01

Base Year is Always Oldest

Dividing by the current year invalidates your entire analysis — no exceptions

02

Percentages Over Raw Pesos

Relative change reveals velocity; raw pesos only reveal size

03

Isolate Organic from Inorganic

Always strip M&A distortions before drawing trend conclusions

04

Speak in Basis Points

The language of Wall Street separates analysts from bookkeepers

05

Data → Decision

Never present findings without a strategic recommendation attached