

Financial Statement Analysis: Vertical Analysis Masterclass

C-AE24 Strategic Business Analysis | Module 6 Part 2

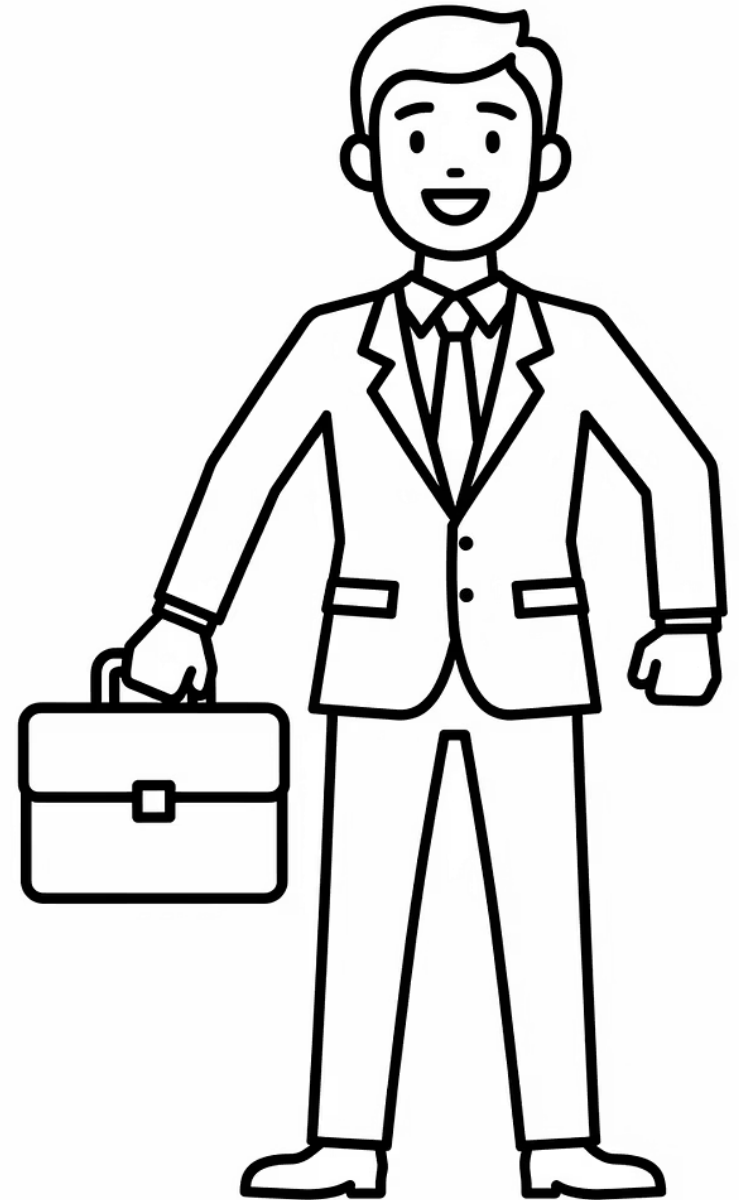
JOLLIBEE FOODS CORPORATION | FY 2024

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Welcome to the Boardroom: Vertical Analysis Unleashed

Last session, we mastered **Horizontal Analysis** — tracking JFC's historical performance velocity. Today, we pull a completely different weapon from our strategic toolkit.



Then: Horizontal

Performance across time
— the corporate movie

Now: Vertical

Internal structural
anatomy — the
operational DNA

The Mission

Strip away raw peso distortions. Expose JFC's financial engine for FY 2024

Forging Elite Business Analysts: Learning Outcomes

Before any tier-one consulting firm goes to war with data, they define the operational mission. Here is your roadmap.

1

Master the Mechanics

Construct flawless common-size financial models across the Income Statement and Balance Sheet (or Statement of Financial Position)

2

Normalize Data

Strip away corporate scale distortions and benchmark JFC against any global competitor

3

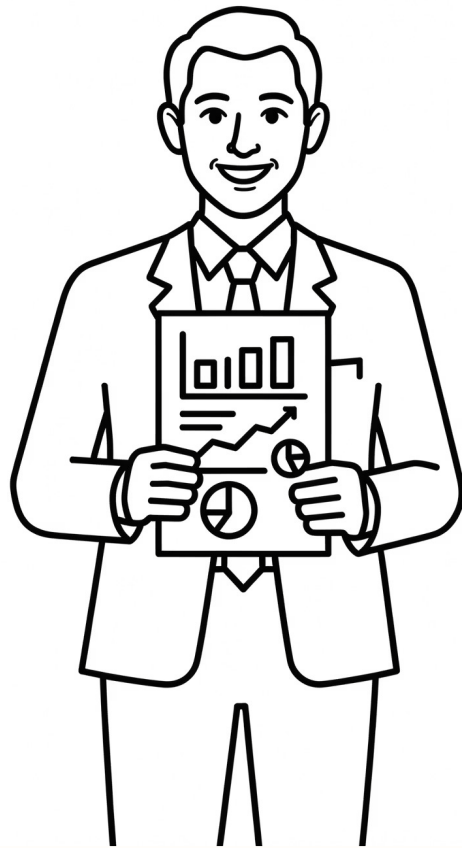
Diagnose Anomalies

Develop the specialized eye to instantly isolate capital inefficiencies and margin leaks

4

Drive Action

Translate raw percentage outputs into high-impact strategic advisory recommendations



CORE DEFINITION

What Is Vertical Analysis?

Also called **Common-Size Financial Modeling**, vertical analysis calculates each line item as a percentage of a single defined baseline anchor — a structural X-ray of a company at an exact moment in time.

The core question answered: ***"For every peso flowing into this enterprise, where does every centavo go?"***

Horizontal Analysis

Looks sideways — tracks changes across time periods

Vertical Analysis

Looks straight down — reveals internal structure within a single period

The Operational Mechanics: Core Formulas

The math is elegantly simple — but as elite analysts, **absolute precision is non-negotiable**. Violating the baseline anchor destroys the entire model.

Income Statement Formula

Baseline Anchor = Total Consolidated Revenues (100%)

Every expense line — from cost of sales to marketing overhead — is divided by total revenue.

$$\text{Line Item \%} = \frac{\text{IS Line Item}}{\text{Total Revenue}} \times 100$$

Balance Sheet Formula

Baseline Anchor = Total Assets (100%)

By the unbreakable rules of double-entry accounting, Total Assets = Total Liabilities + Equity.

$$\text{Line Item \%} = \frac{\text{BS Line Item}}{\text{Total Assets}} \times 100$$

 Never mix up your denominators — using the wrong baseline anchor will collapse your entire strategic pitch in front of executive management.

Constructing the Vertical Income Statement Dashboard

We align FY 2023 and FY 2024 raw figures against their calculated common-size percentages. Total Consolidated Revenues = **100% baseline** for each period.

Line Item	FY 2023 Raw	FY 2024 Raw	Vertical %
Total Consolidated Revenues	Baseline	Baseline	100.0%
Cost of Sales	81.4%	80.8%	↓ 60 bps
Gross Profit	18.6%	19.2%	↑ 60 bps
Operating Expenses	~12.7%	~12.9%	Stable
Operating Income	5.9%	6.3%	↑ 40 bps
Net Income (Equity Holders)	~3.9%	~4.0%	Healthy

The transformation is powerful: absolute peso values disappear, and JFC's true operational cost structure stands fully exposed.

How Basis Points (bps) Are Derived

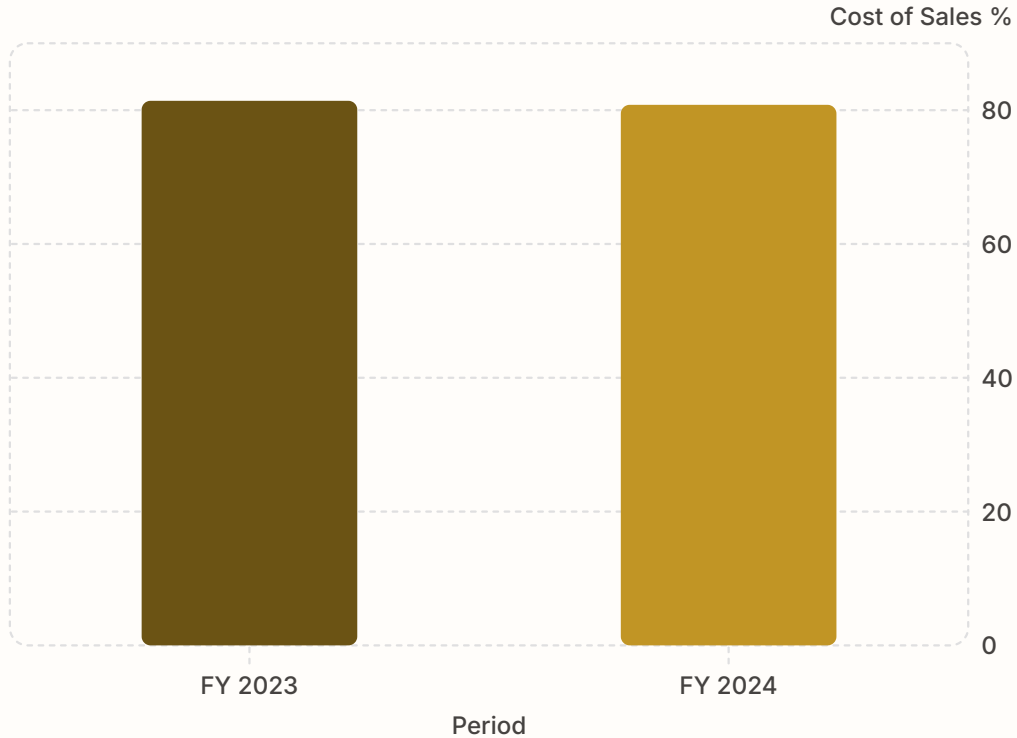
Basis points eliminate ambiguity in percentage–point comparisons. The conversion is simple but critical for precision in financial communication.

1 basis point (bps) = 0.01%

$$\text{Change in bps} = (\text{FY 2024 \%} - \text{FY 2023 \%}) \times 100$$

Line Item	FY 2023 %	FY 2024 %	Derivation → bps
Cost of Sales	81.4%	80.8%	$(80.8 - 81.4) \times 100 = -60$ bps ↓
Gross Profit	18.6%	19.2%	$(19.2 - 18.6) \times 100 = +60$ bps ↑
Operating Expenses	~12.7%	~12.9%	$(12.9 - 12.7) \times 100 = +20$ bps (Stable)
Operating Income	5.9%	6.3%	$(6.3 - 5.9) \times 100 = +40$ bps ↑
Net Income	~3.9%	~4.0%	$(4.0 - 3.9) \times 100 = +10$ bps (Healthy)

 Why bps? Saying "**Cost of Sales dropped 0.6%**" is ambiguous — it could mean a relative or absolute change. Saying "**-60 bps**" means an absolute drop of 0.60 percentage points. No ambiguity. No misinterpretation. This is the language of precision that separates analysts from accountants.



COST OF SALES

Core Cost Architecture: 60-Basis-Point Contraction

Cost of Sales dropped from **81.4% → 80.8%** of revenues. A bookkeeper calls it negligible. A consultant knows better.

Global Procurement Scale

Commanding superior pricing from agricultural suppliers across thousands of stores

Commissary Optimization

Streamlined logistics reducing direct food production costs

Menu Pricing Discipline

Staying ahead of global inflation without sacrificing customer volume

Gross Profit Margin

Expansion: 18.6% → 19.2%

A 60-basis-point gross margin expansion in a year of intense macroeconomic headwinds — volatile chicken prices, rising input costs, shifting consumer sentiment — is a remarkable achievement.

Pricing Power Proven

JFC defended margins against global inflation without alienating core customer volume

Supply Chain Efficiency

Automated inventory systems minimizing food waste across the global commissary network

Production Engine

At 19.2% gross margin, the top-line engine is firing on all cylinders



Overhead Diagnostics: Stability Amid Explosive Growth

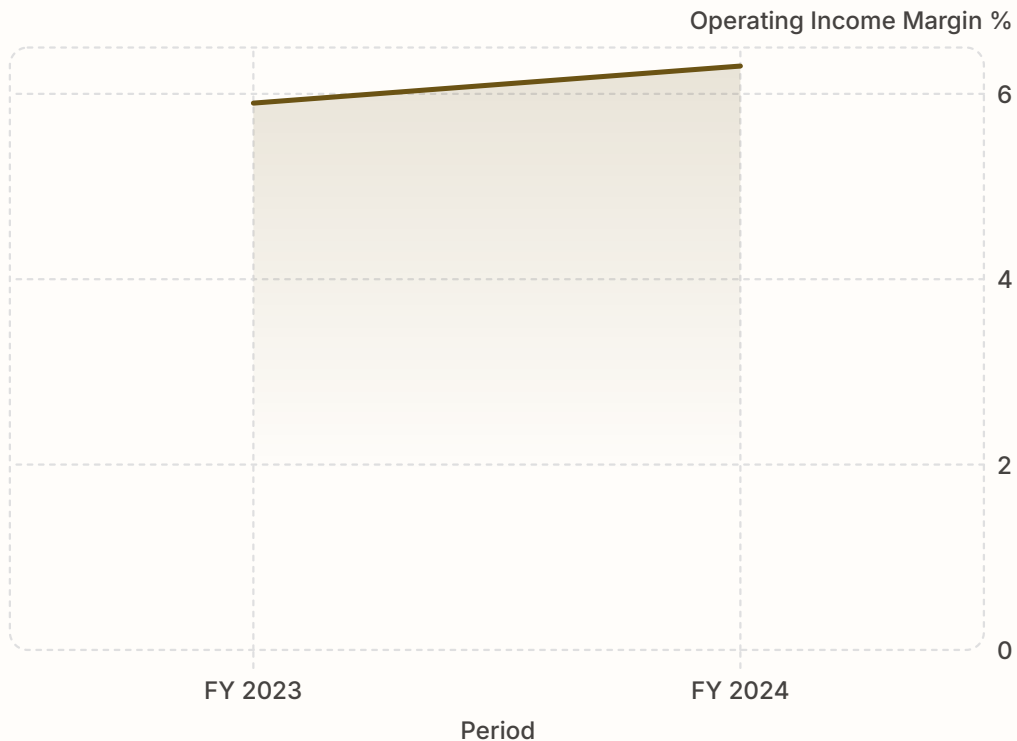
JFC's total OPEX held at approximately **12.9% of revenue** — virtually flat year-over-year. The critical context: store count surged **41%** in the same period.

Normal expectation during aggressive global rollout: **OPEX spikes** due to setup costs, store-opening inefficiencies, and administrative friction.

- ✅ JFC successfully avoided this trap — expanding globally while keeping corporate overhead completely under control. This is operational scaling at its finest.



Core Operating Profitability: **Positive Operating Leverage**



What Positive Operating Leverage Proves

Revenue is growing **faster** than operational costs. Every new store added becomes progressively more profitable as fixed corporate overhead spreads across a larger revenue base.

- JFC is scaling with **intense profitability**, not just growing for size
- The business is structurally healthier at ~10,000 stores than it was when smaller
- A compelling slide for institutional investor presentations



The Ultimate Bottom Line: Net Income Breaks ₱10 Billion

JFC made corporate history in FY 2024. But through our vertical consulting lens, the real story is structural:

Net Margin Reality

~3.9–4.0% of total consolidated revenue — healthy for a company that owns its supply chain and operates premium coffee concepts

Authentic Growth

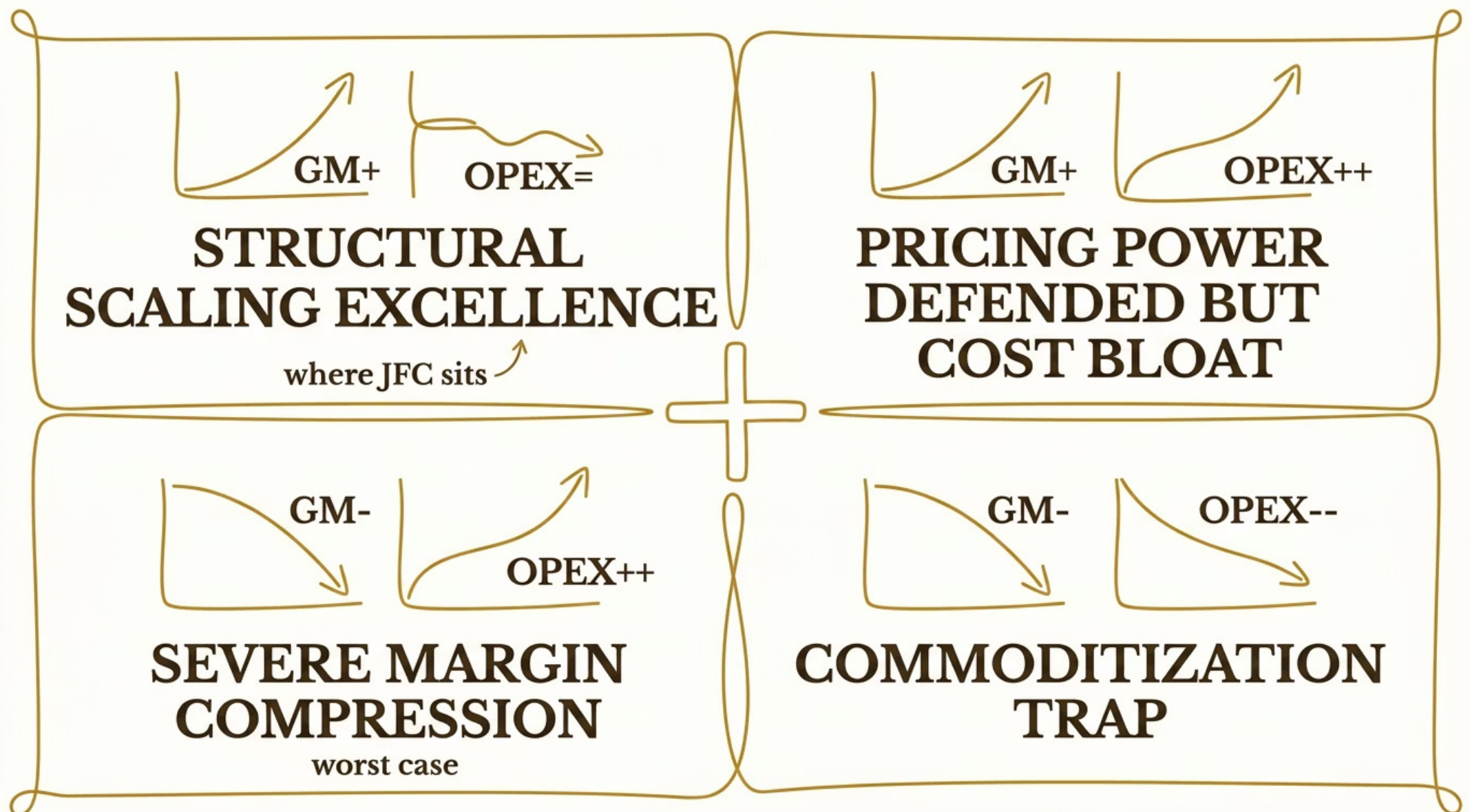
The record profit was driven by **systemic structural improvements** across the entire income statement — not a one-time tax credit or asset sale

Structural Verdict

Organic, authentic, and **fully sustainable** — the growth story holds up under the vertical microscope

The Consultant's Vertical Income Diagnostic Matrix

Map any client onto this proprietary four-quadrant framework using common-size gross margin and OPEX trends as the two diagnostic axes.



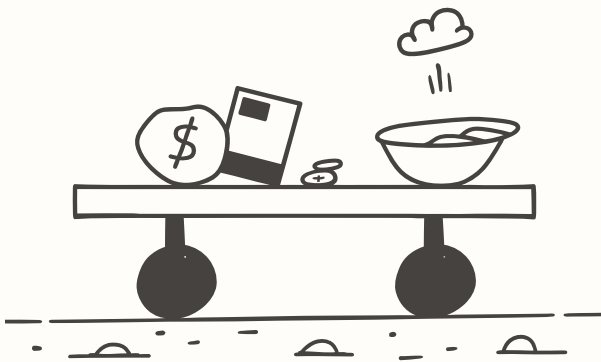
- ✓ JFC's FY 2024 positioning: **Quadrant 1 — Structural Scaling Excellence**. Expanding gross margins + stable operating overhead = elite global management capability confirmed.

STRATEGIC PIVOT

Shifting Focus: Income Statement → Balance Sheet

A company can look profitable on paper and still collapse overnight if its balance sheet is structurally broken. The balance sheet is the ultimate test of **structural survival**.

New baseline anchor: **Total Assets = 100%** for every balance sheet line item.



Income Statement Answers

Performance velocity and transaction efficiency

Balance Sheet Answers

Capital allocation risk, liquidity survival, and funding safety

The Capital Allocation Layout: Common-Size Balance Sheet Matrix

Total Assets FY 2024 = **100% denominator**. Every asset, liability, and equity account scaled proportionally, stripping away billions in raw peso complexity.

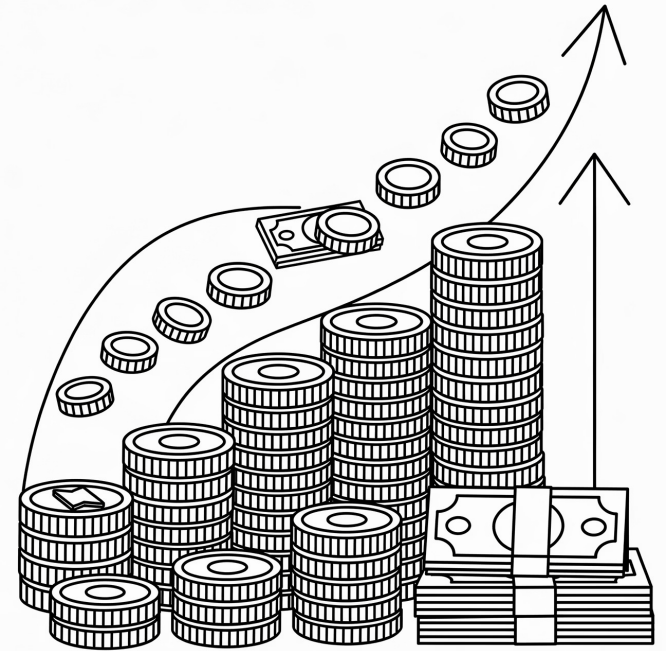
Balance Sheet Category	FY 2023 %	FY 2024 %	Signal
Cash & Cash Equivalents	Strong buffer	Strong buffer	✔ Liquid
Inventories & Receivables	Tight	Tight & stable	✔ Efficient
PPE + Right-of-Use Assets	>40%	>40–50%	⚠ Capital-intensive
Goodwill & Intangibles	Notable %	Notable %	⚠ Monitor M&A risk
Total Liabilities	Significant	Managed	✔ Controlled
Total Equity (Parent)	Solid	Growing	✔ Self-funded

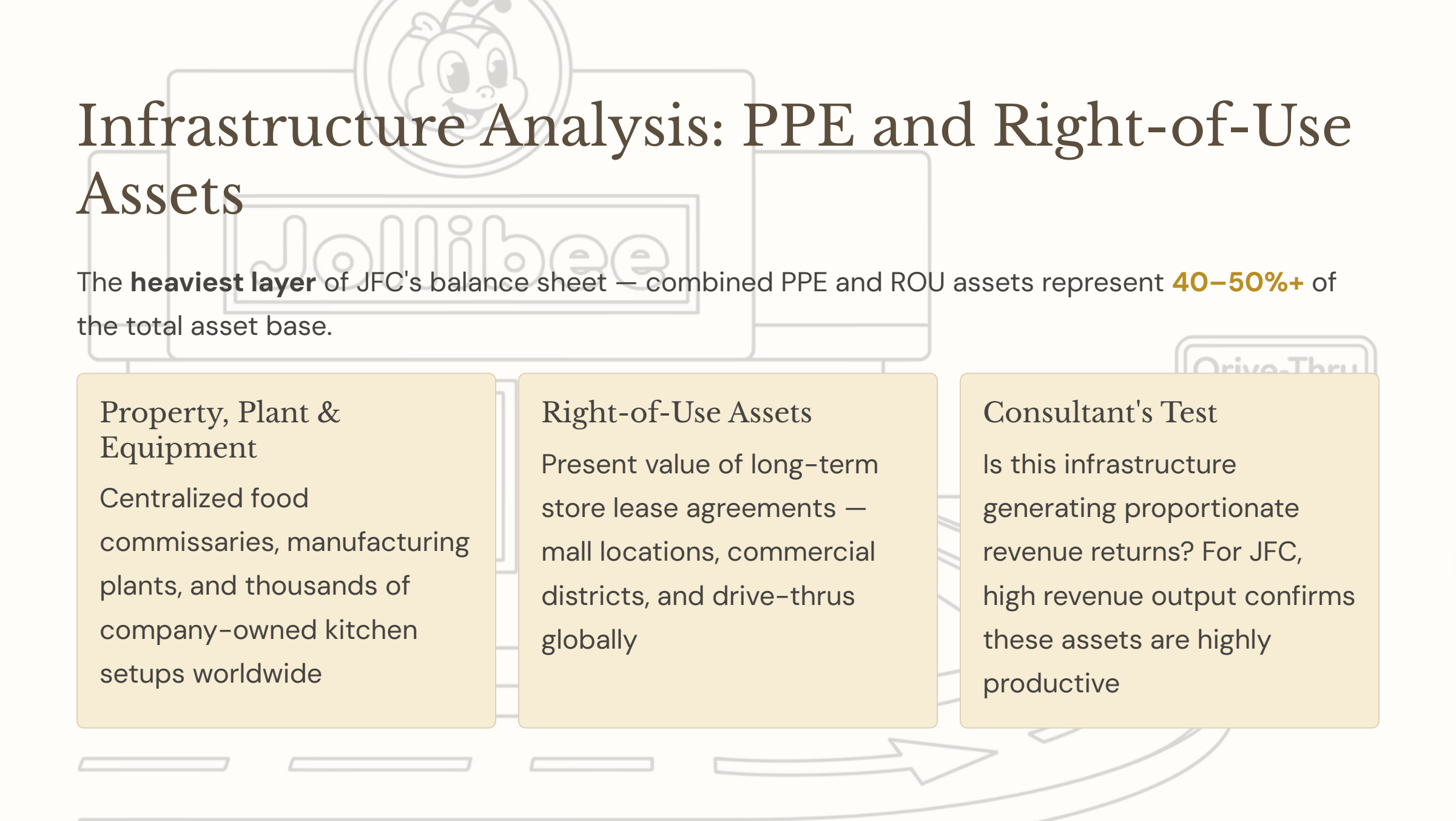
Liquidity Diagnostics: Current Asset Analysis

In fast-moving food service, **cash is king**. You need immediate liquidity to pay suppliers, meet weekly payrolls, and service short-term loans.

- **Cash & Equivalents:** Maintains a significant, stable buffer of total assets
- **Inventories:** Tight, controlled — no overstock frozen in warehouses
- **Trade Receivables:** Stable — no cash trapped in uncollected franchise fees

- ✓ Despite opening thousands of new stores globally, JFC's working capital remained unclogged. The network operates as a highly efficient daily cash-generating machine.



The background features a large, faint Jollibee logo at the top center. Below it, there are faint outlines of a Jollibee sign and a drive-thru lane. The main title is in a large, dark brown serif font.

Infrastructure Analysis: PPE and Right-of-Use Assets

The **heaviest layer** of JFC's balance sheet — combined PPE and ROU assets represent **40–50%+** of the total asset base.

Property, Plant & Equipment

Centralized food commissaries, manufacturing plants, and thousands of company-owned kitchen setups worldwide

Right-of-Use Assets

Present value of long-term store lease agreements — mall locations, commercial districts, and drive-thrus globally

Consultant's Test

Is this infrastructure generating proportionate revenue returns? For JFC, high revenue output confirms these assets are highly productive

Goodwill & Intangibles: The M&A Balance Sheet Footprint

Goodwill and Intangibles represent a **noticeable vertical chunk** of JFC's total assets — the direct balance sheet consequence of acquiring CBTL, Smashburger, and Compose Coffee at brand-premium prices.

Management pays above book value for brand equity and future growth potential. That premium is recorded as **Goodwill**.

⚠ Critical Risk: If an acquired brand underperforms, accounting standards force a Goodwill Impairment charge — a painful direct hit to net profit. Always cross-examine Goodwill size against actual geographic revenue performance.



The Funding Matrix: Liabilities and Equity Vertical Alignment

How does a global food service giant finance a multi-billion-peso asset base? The common-size funding mix reveals the exact capital structure — and its risk profile.

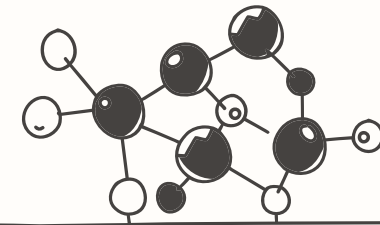
The Consultant's Capital Structure Test

- **Too much debt:** Vulnerable to interest rate shocks and credit crunches
- **Strong equity base:** Rock-solid, safe capital foundation
- **JFC's verdict:** Strong cash generation keeps the liabilities profile healthy and under absolute control

Debt Diagnostics: Short-Term vs. Long-Term Obligations

Two key insights from the common-size liabilities profile:

- ① Monitor the total debt-to-asset vertical ratio across periods. A rising trend puts pressure on operating cash flows to service interest payments.



Trade Payables (Current)

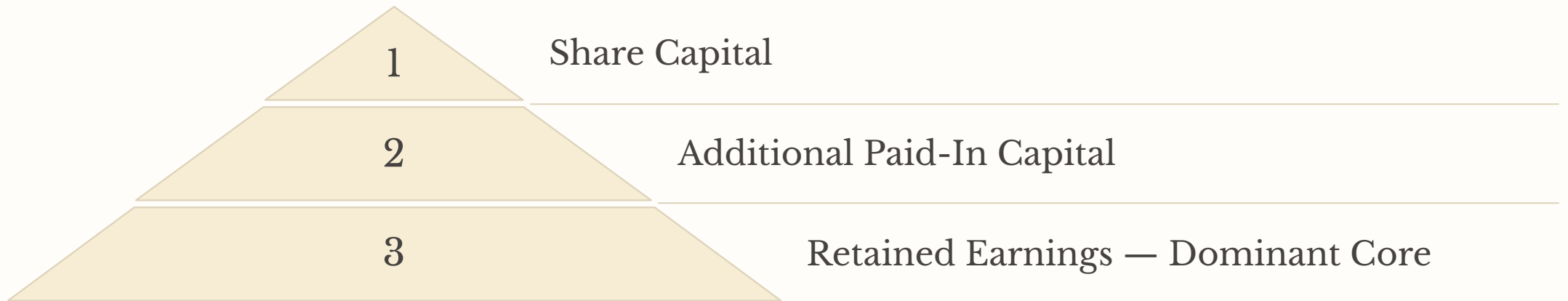
A **large trade payable line is a power signal** — JFC uses suppliers' money interest-free to fund daily working capital, thanks to its immense negotiating leverage

Lease Liabilities (Non-Current)

Operating 9,700+ stores globally means lease obligations form a **major vertical component** of long-term debt — structurally expected and manageable

The Equity Fortress: Self-Funded Capital Stacking

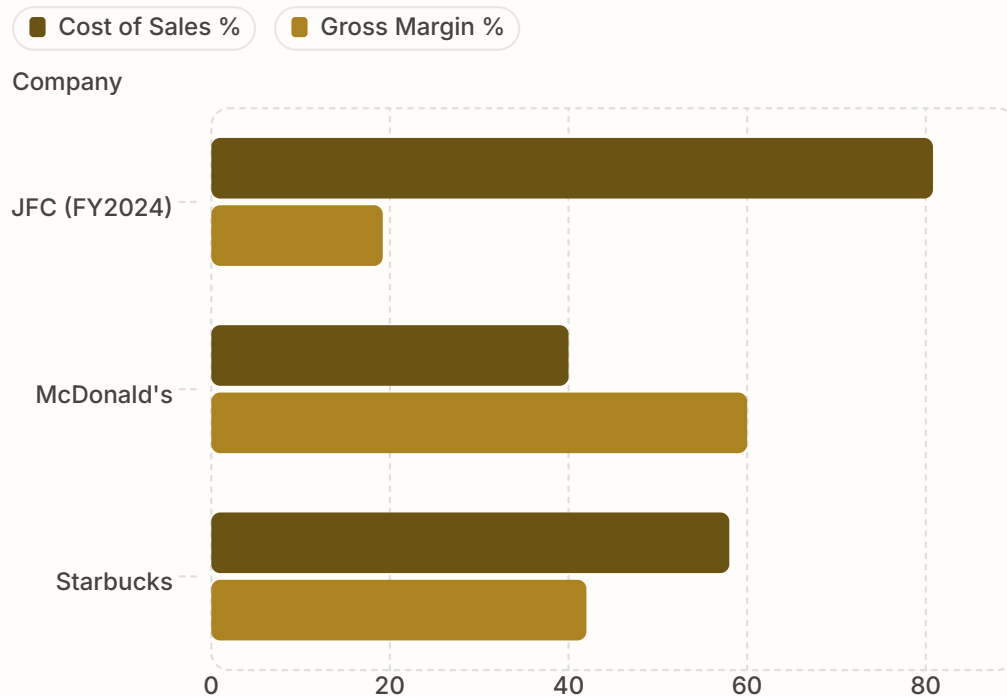
The ultimate bedrock of corporate financial solvency. JFC's equity structure tells a powerful story of independence and resilience.



Self-Funded Organic Capital Stacking: JFC consistently retains massive historical profits and reinvests them directly into new stores and international acquisitions — without relying on dilutive share issuances or excessive bank borrowing. This commands maximum respect from global investment funds.

Strategic Normalization: Benchmarking JFC vs. Global Peers

This is where vertical analysis delivers its most powerful value — **cross-sectional benchmarking** made possible only by normalization. Raw pesos vs. dollars comparisons are meaningless. Common-size percentages are universal.



What the Structural Differences Reveal

- **McDonald's:** Heavy master-franchise model — collects royalties, minimal direct food cost, extremely high gross margin
- **Starbucks:** Company-owned stores dominate — higher COGS but intense localized volume
- **JFC:** Unique diversified sweet spot — blending company-owned stores with aggressive global franchising

Vertical analysis pinpoints exactly where JFC's architecture can improve to close the gap with global benchmarks.

Strategic Diagnostics: Scanning for Financial Leaks

Senior consultants don't just build models — they **diagnose** them. Develop a specialized eye for structural anomalies.

1

Rising Inventory % + Falling Net Margin

Red flag: Product rotting on shelves. Store managers failing to control waste and spoilage across the network

2

Expanding OPEX % + Flat Gross Margin

Red flag: Bloated, inefficient corporate bureaucracy growing faster than revenue. Classic sign of mismanaged scaling

3

Spiking Goodwill % + Contracting Int'l Margins

Red flag: Management overpaying for failing foreign acquisitions. Impairment charges imminent — direct hit to net income



The Communication Framework: From Data to Boardroom Action

Executives don't care if an account is 14.2% or 14.8%. They care about what it means for the **survival and future profitability** of the enterprise.

Identify Structural Reality

State the common-size metric clearly.

Deliver Strategic Recommendation

Give an actionable, high-impact insight.



Isolate Operational Driver

Explain why the percentage moved.

"JFC's common-size cost of sales contracted 60 basis points due to global procurement scaling. We recommend accelerating the asset-light supply chain model across the newly acquired Korean network to lock in this structural advantage."

Strategic Summary: Your Vertical Analysis Arsenal



1 Normalize the Playing Field

Convert raw pesos to common-size percentages — benchmark JFC against any competitor globally, regardless of scale

2 Never Analyze in Isolation

Income statement reveals performance velocity; balance sheet reveals structural survival, funding risk, and capital allocation quality

3 Use Ratios as a Radar System

Scan vertical trends across reporting periods to instantly spot anomalies and capital inefficiencies before they damage corporate value

4 Drive from Data to Action

Your value lies not in calculating percentages — but in translating them into powerful, high-impact strategic advice for executive leadership

Boardroom Briefing Concluded

C-AE24 Strategic Business Analysis | Module 5

Open Floor: Q&A

Challenge the data. How does JFC's 19.2% gross margin hold up as global commodity prices shift? How will Compose Coffee alter the common-size asset structure in the next cycle?

Next: Practical Workshop

Break into advisory teams. Open live JFC FY 2024 annual report data. Construct your own integrated horizontal + vertical financial models and identify the single largest operational cost leak in the international segment

Bring your absolute best analytical energy. **Now let's conquer the data.**

