

Operational Vital Signs: Liquidity & Profitability

C-AE24 Strategic Business Analysis Module 7 Part 1

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Meet Your Patient: Jollibee Foods Corporation

Why are we studying JFC? As the Philippines' largest fast-food operator, JFC has grown into a global powerhouse managing a complex web of brands.

Jollibee

Flagship brand, iconic in the Philippines and expanding globally.

Coffee Bean and Tea Leaf

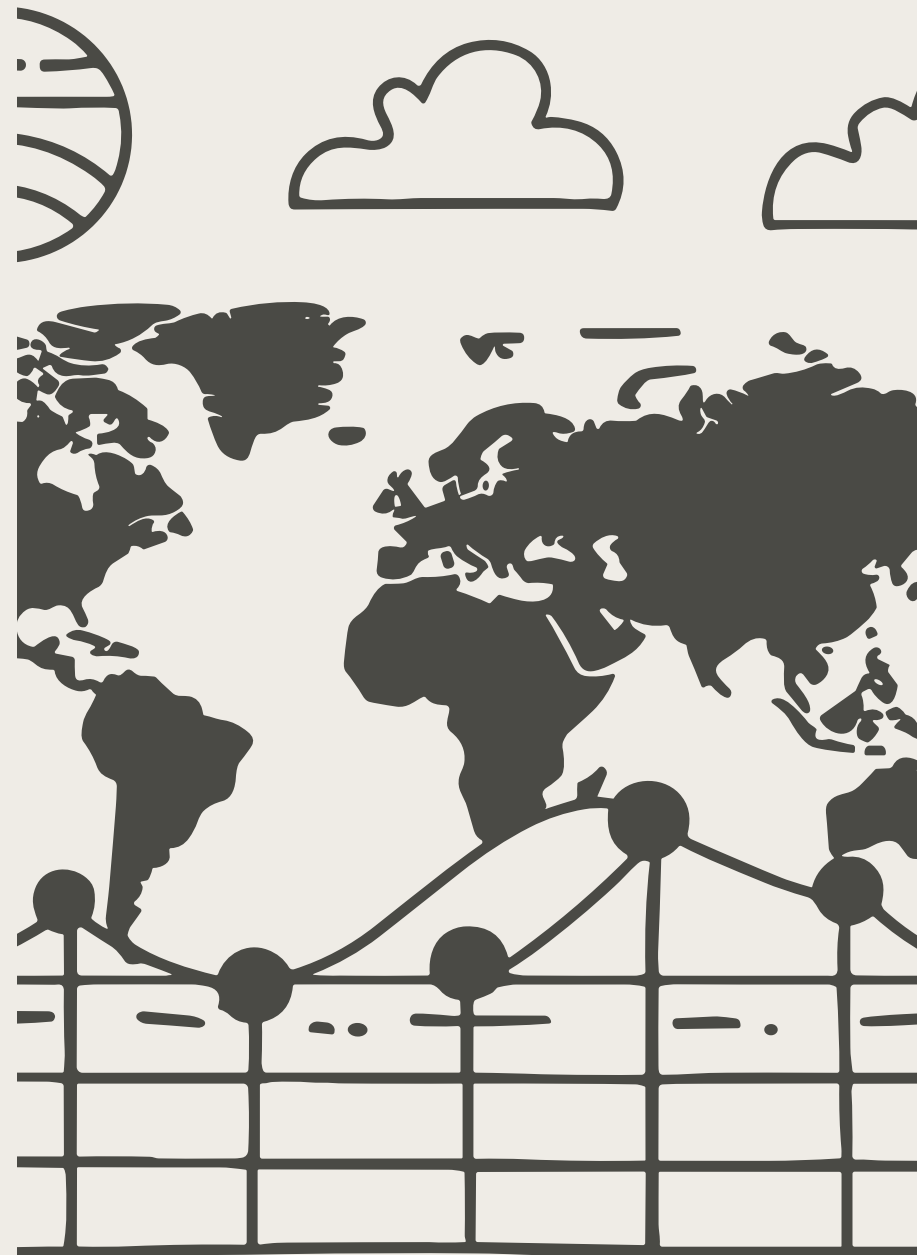
Premium café brand with international presence.

Chowking

Asian quick-service restaurant chain.

Compose Coffee

Newest acquisition — 5,000+ stores in South Korea.



The "Doctor" Analogy

To understand JFC's financial health, think like a physician — not a bean counter.



Accountants = Financial Physicians

They diagnose the health of a business using structured data.



Financial Statements = Medical Records

A complete history of the company's financial condition.



Ratios = Vital Signs

Today's diagnosis: Is JFC **surviving** (Liquidity) and **thriving** (Profitability)?

Part 1: Liquidity – The Survival Sign

CHAPTER 1

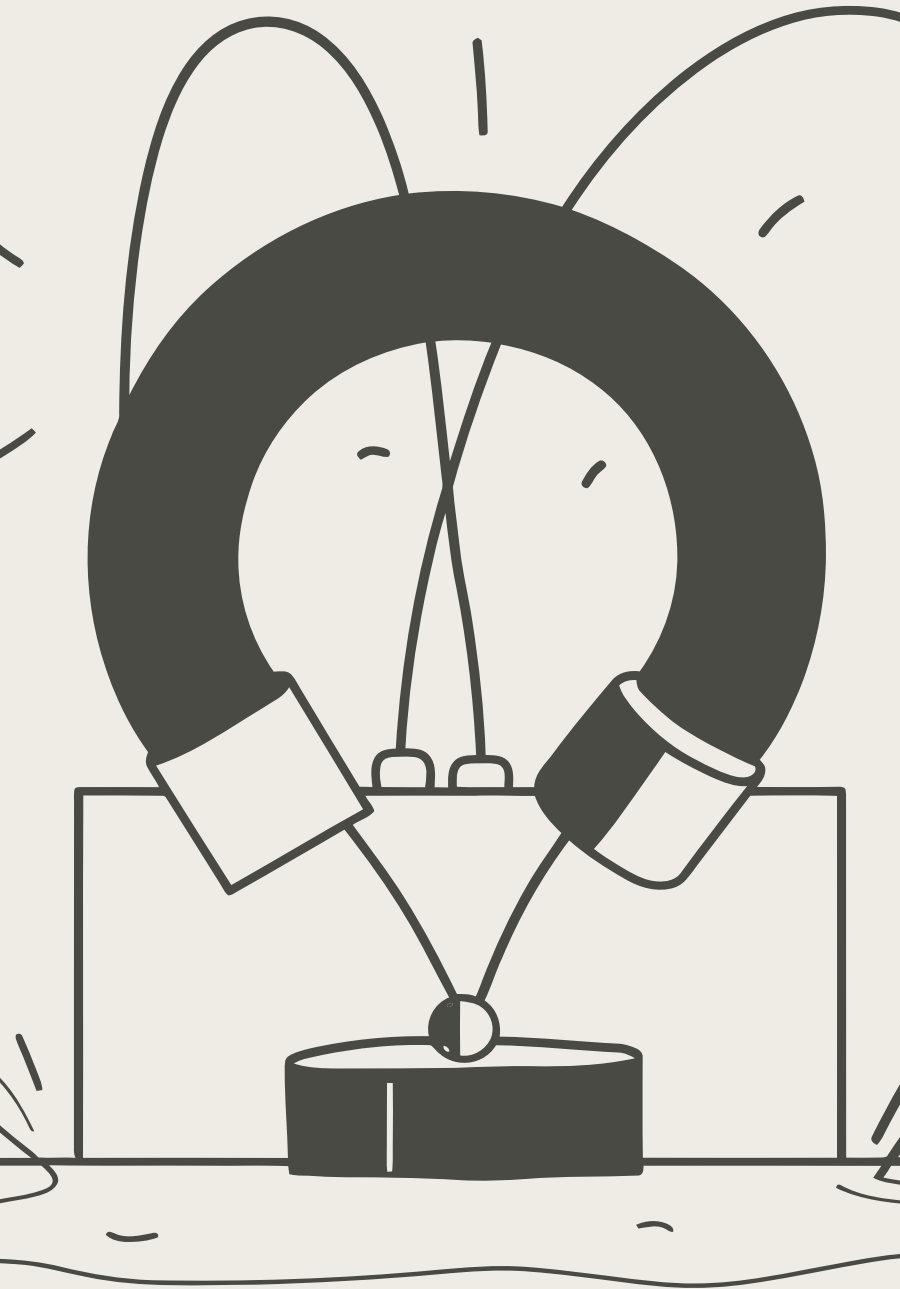
Liquidity is the ability to cover immediate, short-term obligations – the financial equivalent of staying alive. Think of it as the **"30-60-90 Day" Rule**: can the company meet its bills in the near term?

Focus

Current Assets vs. Current Liabilities – what you own now vs. what you owe now.

Key Question

Does JFC have enough short-term firepower to pay back current debt?



Core Liquidity Tools: Current & Quick Ratios

Tool #1: Current Ratio

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

The high-level view of asset coverage. Does JFC have enough "current" firepower to pay back current debt?

Tool #2: Quick Ratio (Acid-Test)

$$\frac{\text{Cash} + \text{Mkt. Securities} + \text{Receivables}}{\text{Current Liabilities}}$$

Crucial Rule: Exclude Inventory and Prepayments. You can't pay a bank loan with frozen burger patties instantly.

- ❏ JFC deals with perishable food inventory. In an emergency, only "Quick Assets" matter — making the Acid-Test especially relevant.

The Paradox: Is "Higher" Always "Better"?

High Liquidity

✓ Safety — the company can meet all short-term obligations comfortably.

Excessive Liquidity

⚠ Inefficiency — idle cash sitting in accounts yields a 0% return.

JFC's Approach

🎯 "Lean Liquidity" — maintain just enough to stay safe while fueling aggressive growth.



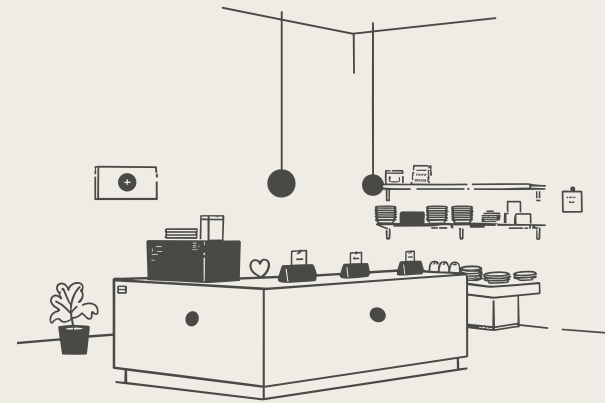
JFC's 2024 Strategic Move: Compose Coffee

The Acquisition

In August 2024, JFC acquired Compose Coffee — a South Korean chain with over **5,000+ stores**. This required a significant deployment of cash reserves.

The Trade-Off

Short-term liquidity dips to secure long-term market dominance. This is the deliberate cost of strategic expansion.



Optimization vs. Maximization

Management's goal isn't to have the *most* cash — it's to have the *right amount* of cash at the right time.



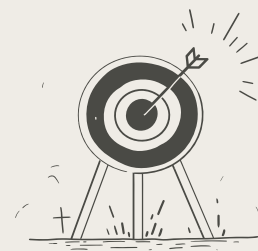
Hoarding Cash

Yields **0% return**. Capital sitting idle destroys shareholder value over time.



Deploying Cash

Investing in new stores and acquisitions drives JFC's compounding growth engine.



The Right Amount

Lean liquidity — enough to cover obligations, with the rest working hard in the business.

Operational Metrics & Working Capital

BEYOND THE BALANCE SHEET

Working capital analysis moves beyond static snapshots to examine the **fluid movement** of resources. The key question: *How fast does cash move through the Jollibee system?*



Velocity is everything. A faster cycle means JFC needs less working capital to sustain the same level of operations — a hallmark of operational excellence.

Receivables Turnover & Days in Inventory

Receivables Turnover

How fast do delivery apps like **GrabFood** & **FoodPanda** and franchisees pay JFC?
Faster collection = stronger cash position.

Days in Inventory

How many days does a chicken piece stay in the freezer before being sold? For perishable food, this number must stay **very low**.

- ❏ The goal for both metrics is **high velocity** — rapid turnover signals operational efficiency and reduces the risk of spoilage or bad debt.

Free Cash Flow – The Golden Metric

$$\text{FCF} = \text{Cash from Operations} - \text{Capital Expenditures (CapEx)}$$

Free Cash Flow is the money JFC has left after maintaining and expanding its asset base. This is the lifeblood of shareholder returns — the cash used to **pay dividends** or **acquire new brands** like Compose Coffee.

📄 **Challenge:** Open JFC's 2024 Annual Report. Find the Cash Flow Statement. Can you calculate the FCF yourself?





Profitability — The Value Sign

Survival is the baseline. **Profitability is the goal.**
Investors demand meaningful returns — not just a company that stays afloat, but one that consistently creates value.

JFC 2024: The Record-Breaking Year

₱10B+

Net Income

Net income breaches the Php 10-Billion mark for the first time.

₱390.3B

System-wide Sales

Up 13.0% year-over-year — a record high.

13%

Sales Growth

JFC is not just big — it's getting more efficient as it scales.

Profitability Metric #1: Gross Profit Margin

The Formula

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Consolidated Revenues}}$$

Measures how much profit remains after direct costs of food and production.

The "Pricing Power" Test

Can Jollibee raise the price of a Yum Burger without losing customers? Gross margin answers this question — a rising margin signals strong brand loyalty and pricing power.

Analysis: JFC's 2024 Margin Expansion

2023 Gross Margin

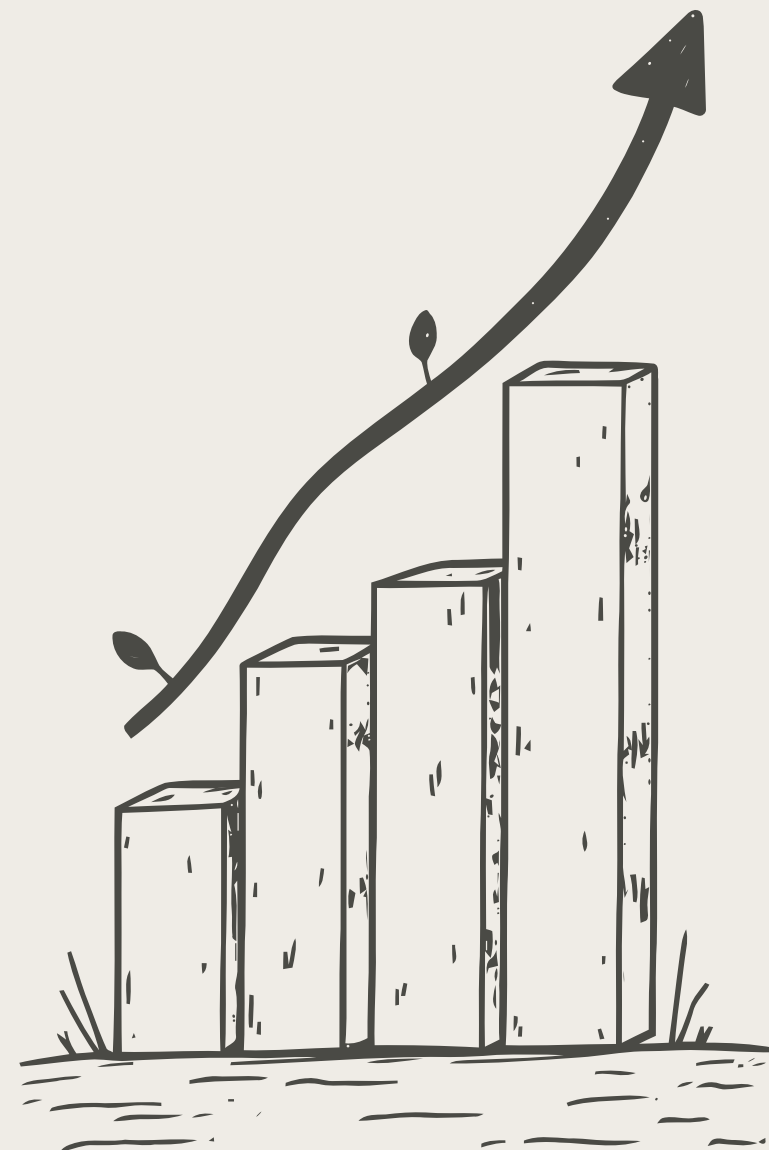
18.6% — the baseline before supply chain optimization.

2024 Gross Margin

19.2% — a 60-basis-point improvement year-over-year.

Why It Matters

A 60-bps increase is **massive** when applied to hundreds of billions in sales.



Inflation vs. Pricing Power

The Headwinds in 2024

JFC faced elevated costs across key inputs — **flour, cooking oil, and electricity** — driven by persistent global inflation pressures throughout the year.

The "Strong Moat"

JFC's ability to **grow margins despite inflation** demonstrates a durable competitive advantage. Brand loyalty allows pricing power that weaker competitors simply cannot match.

- ✅ Growing margins in an inflationary environment is the clearest signal of a company with a genuine competitive moat.

Profitability Metrics #2 & #3: Net Margin & Cost Discipline

Net Profit Margin

Bottom-line efficiency after all costs: OPEX, interest, and taxes. JFC's **Operating Income Margin reached 6.3% in 2024** — a strong result for a capital-intensive restaurant group.

Cost Discipline Strategy

JFC strategically reduced **Advertising & Promotion (A&P)** expenses in late 2024. The logic: once a brand is as powerful as Jollibee, you don't need to outspend competitors to win.

Profitability Metric #3: Return on Equity (ROE)

ROE measures the **profit generated for every Peso of shareholder money** invested in the business. It is the ultimate accountability metric — linking management performance directly to investor returns.

- For BS Accountancy students: ROE is the single most important profitability metric to watch. It bridges the Income Statement and the Balance Sheet into one powerful signal.



The 5-Year Goal: Tripling Net Income



Triple Net Income

JFC's bold promise:
triple net income after
tax within **5 years**.



ROIC Target: 20%

Target Return on
Invested Capital of
20.0% — a demanding
benchmark for capital
efficiency.



The North Star

This is the guiding
metric for JFC's entire
management team and
strategic roadmap.

The AIS Perspective: Ratio Analysis

FOR AIS STUDENTS

From an AIS perspective, ratio analysis depends on systems that collect, standardize, and report reliable financial data in real time.

→ Real-Time Ratio Automation

AIS can calculate key ratios automatically as transactions post.

→ Dashboards and ERP Visibility

ERP dashboards help managers monitor ratios and trends quickly.



Controls Protect Ratio Accuracy

Controls help ensure ratio inputs are complete and accurate.

stripe

Standardizing Cross-Border Data

AIS normalizes currencies and policies for valid comparisons.

The Audit Perspective: Ratio Analysis

FOR ACCOUNTANCY STUDENTS

How Auditors Use Ratios

Auditors use ratio analysis to spot anomalies and possible misstatements. Sudden shifts, like a drop in gross margin, prompt further review.

Key Ratios Under Audit Scrutiny

Auditors compare **ROE**, **net profit margin**, and **current ratio** against prior periods and industry norms. For JFC, the Compose Coffee acquisition may affect these ratios through goodwill, impairment, or one-time charges.

Conclusion: JFC's Financial Health Recap

Liquid Enough

JFC maintains lean liquidity — safe enough to meet obligations, aggressive enough to fund growth.

Profitable Enough

Record net income, expanding margins, and a bold 5-year plan confirm JFC as a market leader.

Your Challenge

Open the 2024 Annual Report. Find the Cash Flow Statement. Calculate the FCF yourself.

Accountants don't just record history — they diagnose the present and forecast the future. JFC's vital signs are strong.