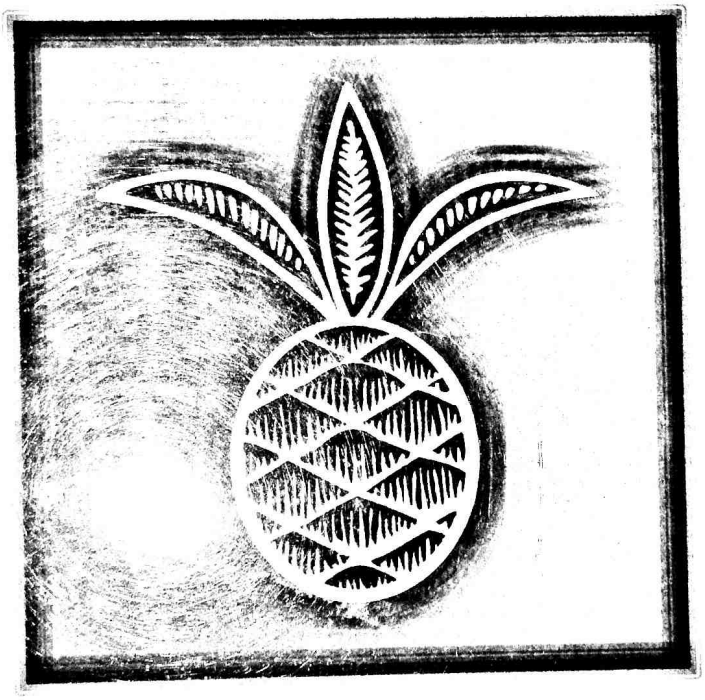
INDIVIDUAL COMPANY ANALYSIS PROJECT

WILLIAMS-SONOMA, INC.

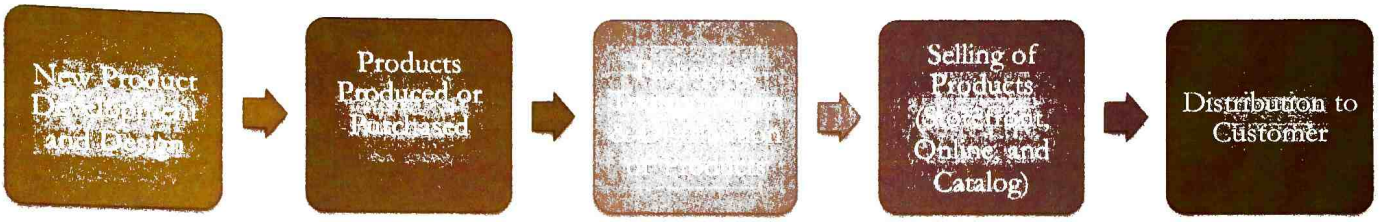


CAROLINE HEALEY
FINANCIAL STATEMENT ANALYSIS
NOVEMBER 20TH, 2012
PROFESSOR BARRETT

I. Industry and Strategy Analysis

A. Industry Analyses

a. Specialty Home Furnishings Retail Value Chain Analysis



Specialty retail industry competitors continually engage in new product development and design. The quality of design is the foundation of the industry's business. New product development encompasses integrating new and sustainable materials, experimentation with innovative styles, and development of novel product features. New product development also includes product research, new product testing, and marketing research to evaluate potential demand for products.

The next step in the specialty retail value chain is that companies must either produce or purchase products that will ultimately be sold to their clientele. Williams-Sonoma, Inc. runs a global business and purchases its products from manufacturers and suppliers around the world. For Williams-Sonoma, there is value added in purchasing products from manufacturers or outsourcing the production of their designs. In this step of the value chain, it is important that Williams-Sonoma, Inc. companies are able to ensure the credibility of the raw materials used in the products they will ultimately market to customer. In order to ensure premium quality products, Williams-Sonoma works to track and document the origin of their wood and cotton inputs.

After individual items have either been produced or purchased, specialty retailers then focus on packaging their products. Following packaging, products are transported and distributed to either warehouses or retail stores. Williams-Sonoma, Inc. has recently expanded beyond the use of its one central distribution center in Memphis. Now, Williams-Sonoma, Inc. supports a business model where distribution centers are utilized on both coasts. For Williams-Sonoma Inc., there is value added in maintaining multiple distribution centers. The company is better able to quickly serve its customers. Furthermore, both costs and fuel usage have been reduced.

After products have been packaged and transported, next step in the specialty retail value chain is to sell products to customers. Williams-Sonoma, Inc. is a large multi-channel retailer, a major cataloger, and a dominant player in e-commerce. Utilizing these multiple sales channels allows Williams-Sonoma, Inc. companies to capitalize on synergy and existing in multiple arenas strengthens the corporation's brands names. Ultimately, specialty retail products are distributed to customers either through retail stores, websites, or catalog orders.

b. Porter's Five Forces

i. Rivalry among existing firms

The specialty retail business is a highly competitive industry. Competition exists amongst department stores; discount retailers, specialty retail stores, direct mail catalogs, and e-commerce websites. The Internet and recent economic downturn altered the specialty retail industry's competitive dynamic. For example, the direct-to-customer industry has experienced substantial sales growth in the past decade. This is predominantly due to the rise in e-commerce, which has increased competition from established companies and allowed the entry of many new competitors. Given the recession in 2008 and current strained economic

conditions, discount retailers pose an increased threat to specialty retailers. In the past, discount retailers have posed little to no threat.

Williams-Sonoma, Inc. companies have historically been regarded as providing high-end specialty home furnishing retail items. However, given the general downward trend in the economy over the past few years, Williams-Sonoma companies now face intense competition from home retailers such as Wal-Mart Stores Inc., Sears Holdings Corporation, Target Corp., and Bed Bath & Beyond, Inc.

ii. Threat of new entrants

Moderate barriers to entry exist in the specialty retail home furnishings industry. Firms looking to enter the industry must consider how they will obtain the initial capital to fund their business and how they will distinguish themselves among established industry veterans, such as the Williams-Sonoma, Inc. brands. Firms must also consider how they will develop relationships with potential suppliers, importers, and manufacturers. This can me a difficult and time-consuming process. However, the rise of the Internet over the past decade has allowed the entry of many new entrants. The Internet allows relatively unknown emerging firms to market and establish themselves at a relatively insignificant cost.

iii. Threat of substitutes

Nothing binds consumers to a specific firm in the specialty retail home furnishing industry. However, on a certain level, even the most Spartan consumers do need basic home furnishing products. Home furnishing retail items are somewhat inelastic goods in the long run. In other words, eventually a homeowner will need to buy something that resembles furniture and basic home goods. An increase in the price of products might cause a customer to delay purchasing an item until the price drops, or lead the customer to a different company altogether.

iv. Buyer power

Individual consumers of specialty home furnishing retail products have relatively limited buyer power. The bargaining power of customers is fairly low and customers are generally price takers. However, buyers do have a certain degree of power in the specialty retail industry. While there are many potential buyers, a fairly broad array of potential sellers exists as well. Purchasing a piece of furniture isn't necessarily as expensive as buying a car or house, but it is a larger expenditure than a cup of coffee. Customers will adjust to gradual changes in price over time, but if the change in price is sudden and drastic they will put the expenditure on hold and wait to purchase until the price returns to a reasonable amount.

v. Supplier power

The specialty retail home furnishing industry is characterized by low supplier power. There are many different suppliers and companies are not typically dependent on one particular supplier for their retail lines. For example, Williams-Sonoma, Inc. purchases merchandise from various foreign and domestic manufacturers and importers. In fiscal 2011, approximately 61% of Williams-Sonoma merchandise purchases were foreign-sourced from vendors in 50 different countries. These foreign vendors were located predominantly in Asia and Europe. Approximately 97% of these foreign-sourced transactions were negotiated and paid for in U.S. dollars. During fiscal 2011, the single largest purchase from an individual supplier accounted for approximately 3.9% of purchases made.

Economic Attributes Framework

vi. Demand

Demand for specialty home furnishing retail goods is a subject to movement with the economic cycle. If the economy is suffering and consumer confidence has diminished, consumers are willing to forgo

unnecessary retail expenditures. Customers are moderately price-sensitive in this market, especially given the lingering effects of the 2008 global recession. Demand within this industry is also subject to seasonality. Specialty retail revenues fluctuate based on timing of holiday selling seasons, including Valentine's Day, Easter, Halloween, Thanksgiving, and Christmas. Demand is relatively mature within the United States; however demand international demand has grown rapidly as a growing middle class emerges in countries such as China and India.

vii. Supply

The specialty retail home furnishings industry consists of a fairly large number of suppliers that offer relatively similar products but at varying costs. Historically, retailers such as the Williams-Sonoma, Inc. companies have competed with other high-end retailers. However, after the 2008 recession and lingering global economic downturn, discount retailers are competing with specialty retailers on a previously unseen level. Moderate barriers to entry have typically existed. However, with the rise of the Internet these barriers have somewhat deteriorated. It is easier for new entrants to break into the market at a lower cost. Furthermore, it is easier to gain a loyal customer following.

viii. Manufacturing

Specialty retail products for the home are supplied from manufacturers and importers all over the world. Resources are available to make products in various countries. Williams-Sonoma specifically purchases merchandise from numerous manufacturers and importers. Approximately 61% of merchandise is manufactured outside of the United States in fifty countries. These countries are predominately located in Asia and Europe.

ix. Marketing

Specialty retail home furnishing products are generally not promoted to other businesses. These products are marketed largely to consumers. Advertising, location, catalogs, coupons, and websites serve as steady principal promotion mechanisms in this market.

x. Investing and Financing

Retail leasing locations and distribution center space are two of the most valuable long-term assets of the specialty retail firm. Acquiring such capital would require long-term financing for firms entering the specialty-retail home furnishings industry. Another valuable brand asset is a company's brand name. For example, the Williams-Sonoma brand is incredibly valuable and one of the biggest intangible assets of the company.

B. Company Strategy Analysis

a. Nature of product or service

Williams-Sonoma, Inc. is a multi-channel specialty retailer of high-quality products for the home. The business is comprised of two segments: a direct-to customer segment and a retail segment. The direct-to-customer segment of the business sells products through six commerce websites (williams-sonoma.com, potterybarn.com, potterybarnkids.com, pbteen.com, westelm.com, and rejuvenation.com) and also seven direct –mail catalogs (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery barn Bed and Bath, PBteen, West Elm and Rejuvenation). The retail segment of the business sells products similar to those that are promoted throughout the direct-to-customer segment. The Williams-Sonoma, Inc. retail segment is composed of five retail store concepts: Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, and Rejuvenation. Descriptions of the company's key brands are as follows:

Williams-Sonoma

Charles E. Williams founded Williams-Sonoma, the company's first brand and store, when the first store opened in Sonoma, California in 1956. Today, Williams-Sonoma stores feature a variety of culinary and entertaining products. Items sold in the store include cookware, cookbooks, cutlery, specialty foods, informal dinnerware, glassware, cooking ingredients, and table linens. This brand's direct to customer business began with the corporation's flagship catalog, "A Catalog for Cooks." This catalog was launched in 1972 and spread Williams-Sonoma's name far beyond the reach of central California. The catalog increased brand awareness and soon retail stores began opening throughout the United States. The Williams-Sonoma e-commerce website and the Williams-Sonoma bridal and gift registry launched in 1999.

Pottery Barn

Williams-Sonoma, Inc. acquired Pottery Barn in 1986. Pottery Barn is a retailer of casual home furnishings. Pottery Barn's home furnishings and furniture are designed by our company to emulate a classic American home. The pieces are sourced from around the world. The first Pottery Barn catalog was launched in 1987. A Pottery Barn e-commerce website was launched in 2000 along with "Pottery Barn Bed and Bath," a catalog that focuses on bed and bath home products. The following year, in 2001, a Pottery Barn gift and bridal registry was established.

Pottery Barn Kids

The Pottery Barn Kids brand features stylish children's furniture and accessories. The brand was first launched as a catalog and in 2000; while the first Pottery Barn Kids stores opened their doors in the United States. The following year in 2001 a gift

registry and e-commerce website was launched for Pottery Barn Kids.

West Elm

Like many other Williams-Sonoma, Inc. brands, West Elm was launched first directly to the customer through a catalog. West Elm is a features contemporary furnishings, lighting fixtures, tabletop items, textiles and accessories at accessible prices. The first West Elm retail store opened in 2003, along with the West Elm e-commerce website.

PBTeen

The PBTeen brand was launched with a catalog and an e-commerce website in 2003. This brand is an extension of the Pottery Barn line of home furnishings and decorative accessories that are targeted to the market of teenage consumers.

Rejuvenation

Williams-Sonoma, Inc. acquired Rejuvenation on November 1, 2011. Rejuvenation's products are sold through its catalog, website, and three operating retail stores. Rejuvenation is a high-end manufacturer of authentic reproduction lighting, as well as door and cabinet hardware. The lighting fixtures available through Rejuvenation are custom-made and considered to be high-quality products.

b. Degree of integration in value chain

Williams-Sonoma, Inc. is heavily involved in certain areas of the value chain and outsources other segments in order to be cost effective. For example, while certain Williams-Sonoma, Inc. brands are engaged in product design (such as Pottery Barn), the company purchases its products from

manufacturers and importers. Williams-Sonoma, Inc. believes there is value added in maintaining their own lines of distribution and runs several distribution centers across the United States. By engaging heavily in the sales phase of the value chain, William-Sonoma believes they are able to get the most bang for their buck and engage their consumers through e-commerce, retail operations, and catalog distribution.

c. Degree of geographical diversification

Williams-Sonoma, Inc. is a publicly traded specialty home furnishing retailer. Currently, the company's retail segment encompasses five retail store concepts: Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, and Rejuvenation. As of January 29, 2012, the corporation operated 576 stores in 44 different states, Washington, D.C., Canada, and Puerto Rico. The company expanded into Canada in 2001. As of the end of Fiscal 2011, the company operates 16 stores in Canada. All of the retail brands except Rejuvenation are represented in the Canadian market. The company further expanded its global reach by entering into a multi-year franchise agreement with M.H. Alshaya Company. This agreement extended the company's presence to the Middle East. By the end of Fiscal 2011, six Pottery Barn stores and seven Pottery Barn Kids stores were operating in the Middle East.

The direct-to-customer segment of Williams-Sonoma, Inc. offers products similar to those sold in the retail stores through six e-commerce websites and seven direct-mail catalogs. In 2011, began to offer shipping from all retail brands (except Rejuvenation) to customers in more than 75 countries around the world. This development starts the company's global e-commerce business.

While Williams-Sonoma's corporate headquarters are located in San Francisco, the company operates distribution centers in New Jersey, California, Tennessee, Mississippi, and North Carolina.

d. Degree of industry diversification

By acquiring Pottery Barn, West-Elm, and Rejuvenation, Williams-Sonoma, Inc. is a dominant force in the specialty home retail industry. They target multiple age groups (through PBTeen and Pottery Barn Kids) and customers with varying price sensitivities (through West Elm, which provides furniture for the price-conscientious consumer. Williams-Sonoma dominates high-end home ware items. Furthermore, Williams-Sonoma, Inc. is growing rapidly on the e-commerce scene and is expanding globally in both the direct-to-customer and retail segments.

II. Profitability Analysis

A. Financial Statement Ratio Analysis – calculate the following ratios for each of the years studied:

a. Profit Margin for ROA

Profit Margin for ROA = [Net Income From Continuing Operations + (1 - Tax Rate) (Interest Expense) + Minority Interest Earnings] / [Sales]

	2011	2010	2009
Profit Margin for ROA	6.37%	5.72%	2.52%

2011

= [(236931)+(1-0.379)(-98)+0]/[3,720,895]
= (236931-60.858)/(3,720,895)
= 0.06366 or 6.37%

2010

= [(200,227)+(1-0.38)(354)+0]/[3,504,158]
= (200,227+219.48)/(3,504,158)
= 0.05720 or 5.72%

2009

= [(77,442)+(1-0.356)(1153)+0]/[3,102,704]
= (77,442+742,532)/(3,102,704)
= 0.0250 or 2.52%

Profit margin for ROA assesses the ability of a firm to generate earnings for a particular level of sales. In other words, the profit margin for ROA gives insight as to what extent a firm is able to use sales to generate profits. Thus, for every dollar in revenue, the profit margin percent tells an investor how much of that dollar is actually profit. The amount of profit can either be reinvested into the business and operations of the firm, or it can be paid to company shareholders as dividends. The effective tax rate provided in the company's 10-k was used in the

calculations above. In Fiscal 2011, Williams-Sonoma's profit margin was 6.37%. That essentially means that for every dollar the company made in sales, about six cents of each dollar was profit. Williams-Sonoma, Inc. shows a positive trend in its results for Profit Margin for ROA. Profit Margin for ROA increased each year from Fiscal 2009 to Fiscal 2011.

b. Assets Turnover

Asset Turnover = (Sales) / (Average Total Assets)

	2011	2010	2009
Asset Turnover	1.78	1.66	1.55

2011

= [3,720,895]/[0.5(2060838+2131762)]
= (3,720,895)/(2,096,300)
= 1.775

2010

= [3504158]/[0.5(2131762+2079169)]
= (3504158)/(2,105,465.50)
= 1.664

2009

= [3102704]/[0.5(2079169+1935464)]
= (3102704)/(2007316.50)
= 1.546

Asset turnover assesses a firm's ability to generate sales for a particular level of investment in assets. This ratio tells an investor how apt a firm is at using assets in order to generate sales. Looking at this number gives an investor the ability to specifically evaluate management's effectiveness in utilizing assets to create profit. As is seen above, William-Sonoma Inc.'s asset turnover ratio steadily increases from Fiscal 2009 to Fiscal 2011. This means the total revenue for every dollar of assets owned by the company is increasing. This is driven largely by the increasing sales

value seen in the numerator. This could be explained potentially by the firm's decision to acquire Rejuvenation and expand its retail operations into the Middle East.

c. ROA

ROA = Profit Margin for ROA * Asset Turnover

	2011	2010	2009
ROA	**11.30%**	**9.52%**	**3.90%**

2011

= 6.366% X 1.775 = 11.2995%

2010

= 5.720% X 1.664 = 9.5198%

2009

= 2.520% X 1.5457 = 3.895%

Multiplying asset turnover ratio and profit margin for ROA derives the return on assets of a given company. ROA tells you exactly what profit a company made for each dollar invested in assets. Looking at this rate allows an investor to measure a firm's success using assets to create earnings. However, this rate ignores the means and costs of financing a firm's net assets. Williams-Sonoma's ROA increased from Fiscal 2009 to Fiscal 2011. This increase was driven by both an increasing profit margin for ROA and increasing asset turnover. These results are most likely indicative of the firm's expansion in the Middle East and its yield from the newly acquired Rejuvenation brand.

d. Profit Margin for ROCE

Profit Margin for ROCE = (Net Income to Common Shareholders) / (Sales)

Profit Margin for ROCE	2011	2010	2009
	6.37%	5.71%	2.50%

2011

= (236931)/(3720895) = 6.3676%

2010

= (200227)/(3504158) = 5.7140%

2009

= (77442)/(3102704) = 2.4960%

Profit margin for ROCE increased from Fiscal 2009 to Fiscal 2010 and increased over the course of Fiscal 2011 for Williams-Sonoma. The profit margin for ROCE indicates the earnings that are allocated to the common shareholders, but after all operating expenses and financing costs of capital senior to the common shareholders have been subtracted. In other words, profit margin for ROCE is measured after financing costs for debt and preferred stock capital. This is different from the calculation of the profit margin for ROA, which is measured before financing costs.

e. Capital Structure Leverage

Capital Structure Leverage = (Average Total Assets) / (Average Common Stock Equity)

Capital Structure Leverage	2011	2010	2009
	1.67	1.70	1.70

2011

= [0.5(2060838+2131762)]/[0.5(12255262+1258863)]
= (2096300)/(1257062.5)
= 1.6676

2010

= [0.5(2131762+2079169)]/[0.5(1258863+1211595)]
= (2105465.50)/(1235229)
= 1.7045

2009

= [0.5(2079169+1935464)]/[0.5(1211595+1147984)]
= (2007316.50)/(1179789.50)
= 1.7014

There was a very small decrease in Williams-Sonoma's capital structure leverage from Fiscal 2009 to Fiscal 2011. Capital structure leverage ratio measures the degree to which a firm utilizes financial leverage to finance assets. It appears that this incremental decrease was driven by a slight increase in average common stock equity over each fiscal year.

f. ROCE

ROCE = Profit Margin for ROCE * Asset Turnover * Capital Structure Leverage

	2011	2010	2009
ROCE	**18.85%**	**16.21%**	**6.56%**

2011

= 6.3676% X 1.775 X 1.6676 = 18.848%

2010

= 5.7140% X 1.664 X 1.7045 = 16.2095%

2009

= 2.4960% X 1.5457 X 1.7014 = 6.5641%

Williams-Sonoma's ROCE increased by approximately ten percent from Fiscal 2009 to Fiscal 2010 and then increase by approximately two percent from Fiscal 2010 to Fiscal 2011. It appears that this growth was driven by increases in profit margin for ROCE, the asset turnover ratio, and the capital structure leverage ratio. It is important to note that the ten percent growth from Fiscal 2009 to Fiscal 2010 was primarily caused by a large increase in profit margin for ROCE. Clearly this increase in profit margin for ROCE increased returns on equity.

g. Cost of Sales/Revenues

(Cost of Sales) / (Revenues)

(Cost of Sales) / (Revenues)	2011	2010	2009
	60.77%	60.79%	64.44%

2011

= (2261039)/(37200895) = 0.6077 = 60.766%

2010

= (2130299)/(3504158) = 0.6079 = 60.794%

2009

= (1999467)/(3102704) = 0.6444 = 64.443%

For Williams-Sonoma, cost of sales includes cost of goods, occupancy expenses, and shipping costs. Williams-Sonoma does not include non-occupancy related costs associated with its distribution network in costs of goods sold. These costs are recorded instead in selling, general, and administrative expenses. Cost of sales as a percentage of total revenues decreased from Fiscal 2009 to Fiscal 2010 and very slightly increased in Fiscal 2011. Both cost of goods sold and revenues increased in value over this three-year period. Williams-Sonoma attributes the decrease from 64.44% in Fiscal 2009 to 60.79% in Fiscal 2010 to leverage of fixed

occupancy expenses due to increasing net revenues, stronger selling margins, a decrease in occupancy expense dollars, and a higher proportion of total company net revenues being generated in the direct-to-customer segment of the business.

b. Operating Expenses/Revenues

(Operating Expenses) / (Revenues)

(Operating Expenses) / (Revenues)	2011	2010	2009
	3.00%	3.49%	1.36%

2011

= (111,774)/(3720895) = 0.03004 = 3.004%

2010

= (122,440)/(3504158) = 0.03494 = 3.494%

2009

= (42,084)/(3102704) = 0.01356 = 1.356%

The operating expenses displayed above account for accrued salaries, benefits and other expenses the firm is accountable for as a percentage of revenues. As is seen above, the ratio was miniscule in Fiscal 2009, but experienced some growth in Fiscal 2010, but then decreased again during Fiscal 2011. These fluctuations are caused of the company's opening of new stores and hiring more workers. However, during Fiscal 2011, the company closed underperforming stores, which caused this number to fluctuate once again.

i. Depreciation and Amortization/Revenues

(Depreciation and Amortization) / (Revenues)

(Depreciation and Amortization) / (Revenues)	2011	2010	2009
	3.50%	4.13%	4.89%

2011

= (130553)/(3720895) = 0.03509 = 3.5%

2010

= (144630)/(3504158) = 0.04127 = 4.13%

2009

= (151796)/(3102704) = 0.04892 = 4.89%

Williams-Sonoma's depreciation and amortization to revenues ratio decreased over the course of Fiscal 2009 to Fiscal 2011. Depreciation and amortization costs are typically calculated by subtracting salvage value from the purchase price of an individual asset. It seems that while Williams-Sonoma's revenue increased over the three-year span, depreciation and amortization revenues decreased, which led to the results posted above. Depreciation and amortization values decreased for the company most likely because they square leased footage growth was negative and a more stores were closed (some permanently and others temporarily) than were opened. With a decreasing number of operating facilities it makes sense the depreciation values would decrease as well.

j. SG&A Expenses/Revenues

(SG&A Expenses) / (Revenues)

(SG&A Expenses) / (Revenues)	2011	2010	2009
	28.97%	29.98%	31.64%

2011

= (1078124)/(3720895) = 0.2897 = 28.98%

2010

= (1050445)/(3504158) = 0.2998 = 29.98%

2009

= (981795)/(3102704) = 0.3164 = 31.64%

While the values of SG&A expenses increased over the course of Fiscal 2009 to Fiscal 2011, SG&A expenses as a percent of revenues decreased over this time span. This occurred primarily because revenues were simply increasing more quickly than SG&A expenses. SG&A Expenses are a fairly large percentage of Williams-Sonoma's revenues because the company includes expenses such as employment, advertising, third party credit processing, and other general expenses under the category of SG&A expenses.

k. Interest Income/Revenues

(Interest Income) / (Revenues)

(Interest Income) / (Revenues)	2011	2010	2009
	0.0026%	0.0101%	0.0370%

2011

= (98)/ (3720895)
= 0.0000263 = 0.0026%

2010

= (354)/(3504158)
= 0.000101 = 0.0101%

2009

= (1153)/ (3102704)
= 0.00037 = 0.0370%

Interest income as a percentage of revenues decreased over the course of the past three Fiscal years. As of January 29, 2012, the company maintained only a line of credit facility with a variable interest rate in an attempt to reduce risk. This could help explain the decline in the ratio. It is also important to take into account the current economic uncertainty and recognize that many investments are not returning gains like was once expected.

l. Income Tax Expense/Revenues

(Income Tax Expense) / (Revenues)

(Income Tax Expense) / (Revenues)	2011	2010	2009
	3.89%	3.51%	1.38%

2011

= (144899)/(3720895)
= 0.03894 = 3.894%

2010

= (122833)/(3504158)
= 0.035053 = 3.505%

2009

= (42847)/(3102704)
= 0.013809 = 1.381%

There is a general upward trend present in the income tax expense as a percentage of revenues ratio data presented above. The ratio increased from 1.38% in Fiscal 2009 to 3.51% in Fiscal 2010. The ratio continued an on the upward trend and increased to 3.89% in Fiscal 2011. As the company's pre-tax profits increase, the amount of required taxes to be paid will continue to increase as well. The 10-k notes explains that except where required by U.S. tax law the company has historically elected not to provide for U.S. income taxes with respect to the distributed earnings of their foreign subsidiaries. The company noted that they are often fined for this practice, but intend to utilize the remainder of these undistributed earnings.

m. Accounts Receivable Turnover

Accounts Receivable Turnover = (Net Sales on Account) / (Average Accounts Receivable)

	2011	2010	2009
Accounts Receivable Turnover	52.33	27.35	4.80

2011

= [3720895]/[0.5(553461+513381)]
= 3720895/533421 = 6.9755
= 365/6.9755 = 52.3260

2010

= [3504158]/[0.5(513381+44187)]
= 3720895/278784 = 13.3469
= 365/13.3469 = 27.3471

2009

= [3102704]/[0.5(44187+37405)]
= 3102704/40796 = 76.0541
= 365/76.0541 = 4.7992

The Accounts Receivable Turnover rate tells investors the average time that it takes Williams-Sonoma to collect accounts receivable in cash.

The data above specifically tells interested parties how many days, on average, accounts receivable were deemed outstanding. The data shown above increases significantly over the course of three years. In Fiscal 2009, the accounts receivable turnover was 4.8 days, but in Fiscal 2010 it had jumped to 27.35 days. This pattern continued in Fiscal 2011, where the accounts receivable turnover was 52.33 days. This extreme growth is being driven by a substantial increase in the average accounts receivable number (located in the denominator of the first part of the calculation).

n. Inventory Turnover

Inventory Turnover = (Cost of Goods Sold) / (Average Inventories)

	2011	2010	2009
Inventory Turnover	**86.11 days**	**83.91 days**	**94.84 days**

2011

= [2261039] / [0.5(553461+513381)]
= 2261039/533421 = 4.2388
= 365/4.2388
= 86.1093

2010

= [2130299]/[0.5(513381+466124)]
= 2130299/489752.50 = 4.3500
= 365/4.3500
= 83.9081

2009

= [1999467]/[0.5(466124+572899)]
= 1999467/519511.50 = 3.8488
= 365/3.8488
= 94.8347

The Inventory Turnover for Williams-Sonoma decreased from Fiscal 2009 to Fiscal 2010, but then increased slightly in Fiscal 2011. Cost of goods sold increases steadily over the course of the Fiscal 2009 to Fiscal

2011 years. However, fluctuating average inventory values propels this movement in the Inventory Turnover data above. The Inventory Turnover values for each of the years, regardless of fluctuation, are high. However, this makes sense for the specialty retail home furnishings industry. The Inventory Turnover value tells investors how long inventory lingered on average. It is understandable that it might take a longer time for a furniture store to sell its products than a grocery store or bakery.

o. Fixed Assets Turnover

Fixed Assets Turnover = (Sales) / (Average Fixed Assets)

	2011	2010	2009
Fixed Assets Turnover	4.74	4.16	3.28

2011

= [3720895]/[0.5(784472+784168)]
= 3720895/784320
= 4.74

2010

= [3504158]/[0.5(784168+898976)]
= 3504158/841572
= 4.16

2009

= [3102704]/[0.5(898976+994791)]
= 3102704/946883.5
= 3.28

Fixed Asset Turnover increased steadily over the course of the three Fiscal years examined. This steady increase in fixed assets turnover indicates the company increased their efficiency in the use of their existing property, plant, and equipment assets. The sales steadily increased from Fiscal 2009 to Fiscal 2011, while the average fixed assets decreased. This

information is reflective of the closure of stores. The company has been divesting assets they do not find to be valuable.

B. Did ROA increase or decrease over the three-year period studied? What were the primary reasons for this change?

ROA increased over the three-year period studied. Both increasing profit margin values and increasing asset turnover values propelled the increase in ROA. It is logical to assume that these results were driven by increased sales due to the company's expansion in the direct-to-customer segment. The segment now reaches consumers in over 75 countries worldwide, which assists in the increase in sales.

C. Did ROCE increase or decrease over the three-year period studied? What were the primary reasons for this change?

ROCE increased over the three-year period studied. This increase was driven by increases in profit margin for ROCE, the asset turnover ratio, and the capital structure leverage ratio. All three of these factors increased over the three-year period to contribute to overall growth in ROCE.

III. Risk Analysis

A. Discuss key risks identified by the company and presented in MD&A.

Williams-Sonoma, Inc. identifies the changes in general economic conditions over the past few years as being one of the most relevant risks that the company faces to date. The company's financial performance is subject to changes in general economic conditions. These economic conditions, in turn impact consumer confidence and consumer spending. If people are afraid or unable to spend money in Williams-Sonoma's retail stores, ultimately, the company's revenues and fiscal performance will be negatively impacted. The company further specifies that an unforeseen economic environment, such as the one present during the 2008-2009 economic downturn, could potentially cause its vendors to go out of business. Another potential implication of an unpredicted economic crisis would be that the banks that lend to Williams-Sonoma and their vendors could discontinue lending. I find the specification of this risk to be interesting because it reminds us just how vulnerable our economy is at the hands of systematic risk.

Another risk identified by the company is increased competition from companies with products and brands similar to those provided by Williams-Sonoma's retail stores. The company reiterates that the specialty direct-to-customer and retail business is a highly competitive arena. If the corporation is unable to anticipate changing consumer preferences and buying trends, they will fall behind the curve and will lose customers to their competitors.

Perhaps one of the most interesting challenges I noticed was the risk Williams-Sonoma faces due to their dependence on key domestic and foreign agents. Because Williams-Sonoma relies heavily on manufacturers that reside overseas, they run the risk of not being able to acquire enough products in sufficient quantities or at acceptable prices. If this occurs, or

if a global crisis erupts, Williams-Sonoma's retail business will be left without the product it needs to fulfill consumer demand requests.

B. Risk Ratio Analysis – calculate the following ratios for each of the years studied:

a. Revenues to Cash Ratio

Revenues to Cash Ratio = Revenues / Average Cash Balance

	2011	2010	2009
Revenues to Cash Ratio	**6.95**	**6.14**	**9.36**

2011

= [3720895]/[0.5(502757+628403)]
= 3720895/565580
= 6.9474

2010

= [3504158]/[0.5(628403+513943)]
= 3504158/571173
= 6.1350

2009

= [3102704]/[0.5(513943+148822)]
= 3102704/331382.50
= 9.3629

The revenues to cash ratio compares revenues to average cash balance. Williams-Sonoma's revenues to cash ratio fluctuated over the three-year period examined. While revenues increased steadily throughout the three Fiscal years, the average cash balance value fluctuated and was significantly

lower in Fiscal 2009 than the other two years. Clearly, management has changed their cash management strategy in Fiscal 2009.

b. Days Revenue Held in Cash

Days Revenue Held in Cash = 365 / Revenues to Cash Ratio

Days Revenue Held in Cash	2011	2010	2009
	52.54	59.49	38.98

2011

= 365/6.9474
= 52.5376

2010

= 365/6.1350
= 59.4947

2009

= 365/9.3629
= 38.9836

Days revenue held in cash is an expression of the revenue to cash ratio previously examined. Days revenue held in cash tells investors how many days of sales the firm has on hand, accessible as cash. The fluctuations present in the revenues to cash ratio also are visible within the context of this data. Generally, as the number of days revenue held in cash becomes large, the ratio may indicate that firms are carrying an excess amount of cash. These firms are susceptible to developing agency problems.

c. Current Ratio

Current Ratio = Current Assets / Current Liabilities

	2011	2010	2009
Current Ratio	2.23	2.20	2.09

2011

= (1276366)/(571799)
= 2.2322

2010

= (1347594)/(611716)
= 2.2030

2009

= (1180193)/(563482)
= 2.0945

The current ratio indicates the amount of cash available at the balance sheet date, plus the amount of other current assets the firm expects to be able to convert to cash within one year of the balance sheet date. Williams-Sonoma's current ratio slowly increased from Fiscal 2009 to Fiscal 2011. Higher current ratios are preferable and it appears that Williams-Sonoma, Inc. is in good shape. The company's ratio is well above 1 and steadily increasing.

d. Quick Ratio

Quick Ratio = (Cash + Marketable Securities + Accounts Receivable) / (Current Liabilities)

	2011	2010	2009
Quick Ratio	0.96	1.10	0.99

2011

= (502757+45961)/(571799) = 0.9595

2010

= (628403+41565)/(611716)= 1.0952

2009

= (513943+44187)/(563482) = 0.9905

The company's Quick ratio increased from 0.9905 in Fiscal 2009 to 1.0952 in Fiscal 2010, but decreased in Fiscal 2011 to 0.9595. The point of a Quick Ratio test is to assess the firm's ability to quickly convert assets into cash. This is why only certain current assets (those that could be easily converted) are included in the numerator. Despite the fluctuations, it appears that Williams-Sonoma is in pretty good shape with respect to the Quick Ratio.

e. Operating Cash Flow to Average Current Liabilities Ratio

Operating Cash Flow to Average Current Liabilities = Operating Cash Flow / Average Current Liabilities

	2011	2010	2009
Operating Cash Flow to Average Current Liabilities	0.49	0.61	0.96

2011

= [291334]/[0.5(571799+611716)]

= 291334/591757.50

= 0.4923

2010

= [355989]/[0.5(611716+563482)]
= 355989/587599
= 0.6058

2009

= [490718]/[0.5(563482+460737)]
= 490718/512109.50
= 0.9582

The Operating Cash Flow to Current Liabilities Ratio uses the cash flow from operations to access the ability of the firm to generate cahs in the near future. The Operating Cash Flow to Current Liabilities Ratio has steadily decreased over the past three Fiscal Years. While an empirical study suggests that firms with a operating cash flow to current liabilities ratio of 0.40 or above is common for a healthy company, I would be wary of the current path Williams-Sonoma is headed down given the consistent decrease in this ratio.

f. Days Account Receivable

Days Accounts Receivable = Sales / Average Accounts Receivables

	2011	2010	2009
Days Accounts Receivable	**4.29**	**4.47**	**4.80**

2011

= [3720895]/[0.5(45961+41565)]
= 3720895/43763 = 85.024
= 365/85.024
= 4.2931

2010

= [3504158]/[0.5(41565+44187)]
= 3504158/42876 = 81.7277

= 365/81.728
= 4.661

2009

= [3102704]/[0.5(44187+37405)]
= 3102704/40796 = 76.0541
= 365/76.0541
= 4.7992

Days Accounts Receivable consistently decreased over the course of the three Fiscal years examined. This movement is most likely caused by a steady increase in both sales and average accounts receivable.

g. Days Inventory

Days Inventory = Cost of Goods Sold / Average Inventories

	2011	2010	2009
Days Inventory	**86.11**	**83.91**	**94.85**

2011

= [2261039]/[0.5(553461+513381)]
= 2261039/533421 = 4.2388
= 365/4.2388
= 86.1093

2010

= [2130299]/[0.5(513381+466124)]
= 2130299/489752.50 = 4.3497
= 365/4.3497
= 83.9138

2009

= [1999467]/[0.5(466124+572899)]
= 1999467/519511.50 = 3.8487
= 365/3.8487
= 94.854

Days Inventory fluctuated from 94.85 in Fiscal 2009 and then decreased to 83.91 in Fiscal 2010. Days Inventory increased to 86.11 in Fiscal 2011. This fluctuation is driven by fluctuating average inventories, which could likely be a reflection of the uncertain economic dynamic that has been present over the past few years which impact consumer spending patterns and behavior.

b. Days Accounts Payable

Days Accounts Payable = Purchases / Average Accounts Payable

	2011	2010	2009
Days Accounts Payable	**35.40**	**34.88**	**33.81**

2011

= [2261039+553461-513381]/[0.5(218329+227963)]
= 2301110/223146 = 10.3122
= 365/10.3122
= 35.395

2010

= [2130299+513381-466124]/[0.5(227963+188241)]
= 2177556/298192 = 10.4639
= 365/10.4639
= 34.8818

2009

= [1999467+466124-572899]/[0.5(188241+162362)]
= 1892692/175301.50 = 10.7968
= 365/10.7968 = 33.8063

Days accounts payable steadily increased from Fiscal 2009 to Fiscal 2011. Days accounts payable tells investors the rate a retailing firm pays for its purchases of inventory products or raw materials. This increase

tells investors that Williams-Sonoma is taking longer and longer to pay for its product purchases. This might be the reason the firm closed retail stores. It is a reasonable predicament in light of the economic conditions present over the past few years. However, this is something that should be monitored because it could potentially become a liability if the company's accounts payable outstanding continues to increase.

i. Net Days Working Capital

Net Days Working Capital = Days Accounts Receivable Outstanding + Days Inventory Held - Days Accounts Payable Outstanding

	2011	2010	2009
Net Days Working Capital	**55.00**	**54.00**	**66.00**

2011

= 4+86-35
= 55 days

2010

= 5+84-35
= 54 days

2009

= 5+95-34
= 66 days

Net days working capital tells investors how long Williams-Sonoma takes to obtain financing for its working capital assets. These fluctuations are congruent with the movements we saw in earlier ratios and make sense in light of that information. Generally it is ideal for the company to continue moving in the direction it did from Fiscal 2009 (66 days) to Fiscal 2010 (54 days). The fewer days of financing required from external sources the better.

j. Liabilities to Assets Ratio

Liabilities to Assets Ratio = Total Liabilities / Total Assets

	2011	2010	2009
Liabilities to Assets Ratio	**0.39**	**0.41**	**0.42**

2011

= 805576/2060838
= .3909

2010

= 872899/2131762
= 0.4095

2009

= 867574/2079169
= 0.4173

The liabilities to assets ratio tells investors exactly how much of a firm's assets are financed through debt. Smaller ratios are better because it conveys less risk. A small ratio tells an investor that a firm has sufficient assets to cover its liabilities. Williams-Sonoma is moving in the right direction by the decreasing trend in this ratio.

k. Liabilities to Shareholders' Equity Ratio

Liabilities to Shareholders' Equity Ratio = Total Liabilities / Total Shareholders' Equity

	2011	2010	2009
Liabilities to Shareholders' Equity Ratio	**0.64**	**0.69**	**0.72**

2011

= 805576/1255262
= 0.6418

2010

= 872899/1258863
= 0.6934

2009

= 867574/1211595
= 0.7161

The Liabilities to Equity Ratio tells an investor the amount of equity and debt the company is utilizing to finance their assets. A larger ratio tells investors that a firm has been financing growth through accruing debt. A high ratio indicates a risky situation, especially when increased interest expenses are considered. Williams-Sonoma's Liabilities to Equity Ratios over Fiscal 2009 to Fiscal 2011 are not high-risk indicators. Even better, this Ratio seems to be trending downward for the company.

l. Long-Term Debt to Long-Term Capital Ratio

Long-Term Debt to Long-Term Capital Ratio = (Long-Term Debt) / (Long-Term Debt + Equity)

	2011	2010	2009
Long-Term Debt to Long-Term Capital Ratio	**0.0043**	**0.0056**	**0.0071**

2011

= [5478]/[5478+1255262]
= 5478/1260740
= 0.004345

2010

= [7130]/[7130+1258863]
= 7130/1265993
= 0.005632

2009

= [8672]/[8672+1211595]
= 8672/1220267
= 0.007107

The Long-Term Debt to Long-Term Capital Ratio appears to be decreasing for Williams-Sonoma. This ratio tells investors the proportion of a company's long-term debt as compared to the capital available. Because Willliams-Sonoma's values for this ratio are so low and continue to decrease it is safe to say they are not in a risky situation.

m. Long-Term Debt to Shareholders' Equity Ratio

Long-Term Debt to Shareholder's Equity Ratio = Long-Term Debt / Total Shareholders' Equity

Long-Term Debt to Shareholders' Equity Ratio	2011	2010	2009
	0.0044	0.0057	0.0072

2011

= 5478/1255262
= 0.004364

2010

= 7130/1258863
= 0.005664

2009

= 8672/1211595
= 0.007158

The Long-Term Debt to Equity Ratio appears to also be decreasing over the course of the three Fiscal years examined. This ratio compares the amount of long-term debt a company has to their shareholder's equity. It is clear that Williams-Sonoma carries little long-term debt and instead focuses on gaining equity from shareholders.

n. Operating Cash Flow to Average Total Liabilities Ratio

Operating Cash Flow to Average Total Liabilities Ratio = Operating Cash Flow / Average Total Liabilities

Operating Cash Flow to Average Total Liabilities Ratio	**2011**	**2010**	**2009**
	0.35	**0.41**	**0.59**

2011
= [291334]/[0.5(805576+872899)]
= 291334/839237.50
= 0.3471

2010
= [355989]/[0.5(872899+867574)]
= 355989/870236.50
=0.4091

2009
= [490718]/[0.5(867574+787480)]
= 490718/827527
= 0.5930

Williams-Sonoma's Operating Cash Flow to Average Total Liabilities Ratio has decreased from Fiscal 2009 through Fiscal 2011. Healthy companies general have operating cash flow to average total liabilities ratios of approximately .2. Williams-Sonoma was definitely above this

benchmark, but unfortunately appears to be decreasing this over time. This ratio is important because it indicates whether or not Williams-Sonoma could pay off all its liabilities with the cash flow it receives.

o. Interest Coverage Ratio

Interest Coverage Ratio = (Net Income + Interest Expense + Income Tax Expense) / (Interest Expense)

	2011	2010	2009
Interest Coverage Ratio	34895.23	913.60	105.33

2011

= (236931+(-98)+144899)/(-98) = -3,4895.2245

2010

= (200227+354+122833)/(354) = 913.5989

2009

= (77442+1153+42847)/(1153) = 105.327

Something seems to be askew with Williams-Sonoma interest coverage ratio. It increases somewhat exponentially over time. The Interest Coverage Ratio tells investors how many times the company is able to pay the interest on its debt as is related to operating income.

C. Interpret changes in the risk ratios over the three-year period studied and indicate areas of concern.

Management appears to be altering the cash balance requirements for Williams-Sonoma, Inc. Hopefully they are restructuring their system in an attempt to make it better, but there were considerable fluctuations when cash balance was involved in the earlier ratios.

As discussed earlier, I am troubled by the increasing trend in Days Accounts Receivable and the decreasing Operating Cash Flow to Average Total Liabilities Ratio. These are important things for the company to recognize or else their operations will become increasingly risky.

D. Determine if the company prepares a report regarding its environmental, social and/or governance risks (such as those prepared under the standards set forth by the Global Reporting Initiative). Briefly explain the key concerns raised in this report (if applicable).

Williams-Sonoma, Inc. does indeed prepare a report regarding its environmental, social, and governance risks. The report, which is available through the GRI Sustainability Disclosures Database, is entitled "Corporate Responsibility Report 2011." The report explains what sustainability means to the Williams-Sonoma team and describes their strategy to continue reducing their carbon footprint in the daily business operations of the companies.

The company carefully details their use of raw materials in the report and notes that the manner in which raw materials are sourced considerably impacts the environment. Williams-Sonoma has made a concerted effort to team up with their suppliers and partners over the past few years in an effort to learn more about the sources of raw materials used in their products. For example, Williams-Sonoma partnered with the Global Forest and Trade Network (GFTN) to encourage responsible wood harvesting. GFTN focuses on shifting companies towards sustainable sources of wood over time and encourages companies to track the path of wood in their global supply chain (a process known as chain-of-custody documentation). Williams-Sonoma also explains its strategy for improving responsible textile use. To make the corporation's textile use more sustainable, Williams-Sonoma reduced the use of chemicals by adhering to the Organic Exchange

100 Standard and banning the use of Uzbek cotton in its products due to documented child labor violations in their cotton fields.

The report also commits the corporation to improving working conditions and continuing to support local artisans throughout the supply chain. The report details the company's commitment to community service and its steps towards reducing energy and fuel consumption. The Williams-Sonoma 2011 Corporate Responsibility Report carefully describes the company's current activity in every step of their supply chain and thoughtfully pledges continued improvement in the future.

IV. Forecasting

A. Calculate projected operating profit for the company for the next five years based on forecasted income statements, such as the one found in Exhibit 10.3 on page 805 in the textbook.

See attached document "Williams-Sonoma, Inc. – *Actual and Forecast Statements of Net Income and Comprehensive Income.*"

B. Explain the process and assumptions used to make the forecasts for each line item of the forecasted income statements.

With respect to segmentation, Williams-Sonoma Inc., divides its revenues into two main divisions: direct-to-customer revenue and retail revenue. Direct-to-customer net revenues are driven by sales of merchandise through e-commerce websites, catalogs, and shipping fees. Direct-to-customer revenues account for 43.9% of total net revenues. Amount of leased square footage and sales of merchandise to customers at retail stores, as well as any shipping fees drive retail net revenues. Retail revenues account for 56.1% of total net revenues.

The Williams-Sonoma, Inc. forecast attached is primarily driven by projected revenue growth. The assumptions used to forecast the statements of net income and comprehensive income take into account the recent results of the presidential election, current unrest in the Middle East (where Williams-Sonoma, Inc. has expanded), and January's looming fiscal cliff. Taking these factors into consideration, projected revenue growth was calculated to be 10.14%. It is predicted that similar growth will occur over the span of the next five years. However, the consultants predict that in 2014 projected revenue growth will increase to 12.32% in response to the United States' Senate elections and a brief improvement in global economic conditions. However, it is predicted that this increase in projected revenue

growth will be brief and following Fiscal 2014; revenue will continue to grow at a rate of 10.14%.

Forecasts for a projected revenue growth are driven by the belief that consumer-spending habits will increasingly shift towards e-commerce. We believe that comparative retail store sales will continue to gradually increase, but that the e-commerce facet of the direct-to-consumer segment of revenue will drive primary growth. It is also predicted that leased square footage will continue to decrease for Williams-Sonoma, Inc. Eventually, the direct-to-consumer segment will drive the majority of revenue due to its e-commerce division. E-commerce will be the future of Williams-Sonoma, Inc. because it will allow the company's premier brands to capture a share of the global specialty home furnishings retail market.

A gradual increase in the cost of good sold is projected over the next five years, while SG&A expenses are assumed to be a steady percentage of sales.

V. Risk Adjusted Expected Rates of Return

A. Use the CAPM to compute the required rate of return on equity capital for the company.

$$E[R_{Ej}] = E[R_F] + \beta_j \times \{E[R_M] - E[R_F]\}$$

Within the context of this formula, "E" means that the related variable is an expectation, while R_{Ej} symbolizes the required return on common equity in firm "j." R_F stands for the risk-free rate of return, while β_j is the market Beta for firm "j." R_M denotes the required rate of return on a market wide portfolio of diversified stocks. The expression $\{E[R_M] - E[R_F]\}$ represents the market premium risk.

Williams-Sonoma, Inc.'s market Beta is 1.46. This is around average for a firm in the retail industry. A firm with a market beta greater than 1 has higher than average systematic risk and will consequently face a higher cost of equity capital. The prevailing yield on three- to five- year U.S. Treasury bonds is roughly 4%. The current market risk premium is 6%. Assembling this information and using CAPM, the required rate of return on equity capital for Williams-Sonoma, Inc. is as follows:

$$E[R_{wsm}] = 4.0 + 1.46(6) = 12.76 \text{ cost of equity capital}$$

This CAPM implies that investors require a 12.76 percent rate of return on capital invested in Williams-Sonoma, Inc. When determining share values of Williams-Sonoma, Inc., investors are advised to discount to present value the expected future payoffs using a 12.76 percent discount rate.

B. Compute the weighted average cost of capital for the company as of the start of the next fiscal year.

The formula for the weighted average cost of capital is as follows:

$$R_A = [w_D \times R_D \times (1\text{-tax rate})] + [w_P \times R_P] + [w_E \times R_E]$$

The weighted average cost of capital for Williams-Sonoma at the start of Fiscal 2012 is 11.56. The weighted average cost of capital is used to encompass the debt, preferred, and common equity capital used to finance the net operating asset of Williams-Sonoma, Inc. Williams-Sonoma, Inc. and its various segments need to perform at least at the 11.56% level. If a segment or division of the company is not returning at least 11.56%, then it is time to divest of this division. If a segment is returning below 11.56%, they are effectively destroying wealth and value and are consequently taking money away from the company.

	Amount	Weight	After Tax Cost of Capital	Weighted Average
Debt	7273.00	0.14	4.16	0.58
Equity	44762.70	0.86	12.76	10.98
	52035.70			11.56

Williams-Sonoma, Inc.

Actual and Forecast Statements of Net Income and Comprehensive Income

Growth Rate = 10.14%

Year	Actuals 2009	2010	2011	Forecasts 2012	2013	2014	2015	2016
INCOME STATEMENT								
Revenues	3,102,704	3,504,158	3,720,895	$ 4,098,193.75	$ 4,513,750.60	$ 5,069,844.67	$ 5,583,926.92	$ 6,150,137.11
common size	100%	100%	100%	10.14%	10.14%	12.32%	10.14%	10.14%
rate of change		12.94%	6.19%	*See forecast analysis.				
Cost of Goods Sold	1,999,467	2,130,299	2,261,039	$ 2,508,832.19	$ 2,783,629.93	$ 3,149,488.83	$ 3,494,086.35	$ 3,876,185.32
common size	64.44%	60.79%	60.77%	61.22%	61.67%	62.12%	62.57%	63.03%
rate of change		6.54%	6.14%	*Assume steady and slow increasing cost of goods sold as a percent of sales.				
Gross Profit	$ 1,103,237	$ 1,373,859	$ 1,459,856	$ 1,589,361.56	$ 1,730,120.67	$ 1,920,355.84	$ 2,089,840.57	$ 2,273,951.79
common size	35.56%	39.21%	39.23%	38.78%	38.33%	37.88%	37.43%	36.97%
rate of change		24.53%	6.26%	8.87%	8.86%	11.00%	8.83%	8.81%
Selling, General, and Administrative Expenses	981,795	1,050,445	1,078,124	1,157,740	1,275,135	1,432,231	1,577,459	1,737,414
common size	31.64%	29.98%	28.97%	28.25%	28.25%	28.25%	28.25%	28.25%
rate of change		6.99%	2.63%	*Assume steady SG&A expense as a percent of sales.				
Depreciation and Amortizaition	151,796	144,630	130,553	129,233.00	128,500.00	130,420.00	135,067.00	140,560.00
common size	4.89%	4.13%	3.51%	3.15%	2.85%	2.57%	2.42%	2.29%
rate of change		-4.72%	-9.73%	-1.01%	-0.57%	1.49%	3.56%	4.07%
Operating Profit	-30354.0	$ 178,784	251179.0	1589361.6	1730120.7	1920355.8	2089840.6	2273951.8
common size	-0.98%	5.10%	6.75%	38.78%	38.33%	37.88%	37.43%	36.97%
rate of change		-689.00%	40.49%	532.76%	8.86%	11.00%	8.83%	8.81%