

The Du Pont System of the Analysis of Return Ratios Applied to Sears, Roebuck & Co.

Return on Assets (ROA)¹

Calculation for fiscal year 2003

Return on assets = (total asset turnover) (net profit margin)

$$\frac{\text{net profit}}{\text{total assets}} = \left(\frac{\text{sales}}{\text{total assets}} \right) \left(\frac{\text{net profit}}{\text{sales}} \right)$$

$$\frac{\$3,397}{\$27,723} = \left(\frac{\$41,124}{\$27,723} \right) \left(\frac{\$3,397}{\$41,124} \right)$$

$$0.1225 = (1.4834 \text{ times}) (0.08260)$$

Check on your work:

$$12.25\% = 12.25\%$$

Try it for 2002: Return on assets = 2.73%

Return on Equity (ROE)²

Calculation for fiscal year 2003

Return on equity = (total asset turnover) (net profit margin)(equity multiplier)

$$\frac{\text{net profit}}{\text{equity}} = \left(\frac{\text{sales}}{\text{total assets}} \right) \left(\frac{\text{net profit}}{\text{sales}} \right) \left(\frac{\text{total assets}}{\text{equity}} \right)$$

$$\frac{\$3,397}{\$6,401} = \left(\frac{\$41,124}{\$27,723} \right) \left(\frac{\$3,397}{\$41,124} \right) \left(\frac{\$27,723}{\$6,401} \right)$$

$$0.5307 = (1.4834 \text{ times}) (0.0826) (4.3310)$$

Check on your work:

$$53.07\% = 53.07\%$$

Try it for 2002: Return on equity = 20.38%

¹
$$\frac{\text{net profit}}{\text{total assets}} = \left(\frac{\text{sales}}{\text{total assets}} \right) \left(\frac{\text{net profit}}{\text{sales}} \right)$$

²
$$\frac{\text{net profit}}{\text{equity}} = \left(\frac{\text{sales}}{\text{total assets}} \right) \left(\frac{\text{net profit}}{\text{sales}} \right) \left(\frac{\text{total assets}}{\text{equity}} \right)$$

Using the DuPont Breakdown

Comparing 2002 and 2003:

Year	2003	2002
Return on equity	53.07%	20.38%
Return on assets	12.25%	2.73%
Total asset turnover	1.4834 times	0.8206 times
Net profit margin	8.26%	3.326%
Equity multiplier	4.3110 times	7.4647 times

Why the change in return on assets from 2002 to 2003?

- o Increase in its profit margin.
- o Increase in its asset turnover (due primarily to a reduction in assets through the sale of credit card receivables in 2003 to Citigroup at a \$6 billion profit).

Why the change in return on equity from 2002 to 2003?

- o Increase in its profit margin.
- o Increase in its asset turnover (due primarily to a reduction in assets through the reduction in credit card receivables by selling them to Citigroup at a \$6 billion profit).
- o Reduction in long-term debt (from some of the proceeds from the sale of its credit card receivables) and in increase in equity from the profit on the sale of the receivables.

SEARS, ROEBUCK AND CO.
Consolidated Statements of Income

<i>millions, except per common share data</i>	<u>2003</u>	<u>2002</u>	<u>2001</u>
REVENUES			
Merchandise sales and services	\$ 36,372	\$ 35,698	\$ 35,755
Credit and financial products revenues	<u>4,752</u>	<u>5,668</u>	<u>5,235</u>
Total revenues	<u>41,124</u>	<u>41,366</u>	<u>40,990</u>
 COSTS AND EXPENSES			
Cost of sales, buying and occupancy	26,231	25,646	26,234
Selling and administrative	9,111	9,249	8,892
Provision for uncollectible accounts	1,747	2,261	1,866
Depreciation and amortization	909	875	863
Interest, net	1,025	1,143	1,415
Loss on early retirement of debt, net	791	--	--
Special charges and impairments	<u>112</u>	<u>111</u>	<u>542</u>
Total costs and expenses	<u>39,926</u>	<u>39,285</u>	<u>39,812</u>
Operating income	1,198	2,081	1,178
Gain on sale of businesses	4,224	--	--
Other income, net	<u>27</u>	<u>372</u>	<u>45</u>
Income before income taxes, minority interest and cumulative effect of change in accounting principle	5,449	2,453	1,223
Income taxes	2,007	858	467
Minority interest	<u>45</u>	<u>11</u>	<u>21</u>
Income before cumulative effect of change in accounting principle	3,397	1,584	735
Cumulative effect of change in accounting for goodwill	--	<u>(208)</u>	<u>--</u>
NET INCOME	<u>\$ 3,397</u>	<u>\$ 1,376</u>	<u>\$ 735</u>

Source: Sears, Roebuck & Co. www.sears.com

SEARS, ROEBUCK AND CO.
Consolidated Balance Sheets

millions, except per share data

ASSETS

Current assets

	2003	2002
Cash and cash equivalents	\$ 9,057	\$ 1,962
Credit card receivables	1,998	32,563
Less allowance for uncollectible accounts	42	1,832
Net credit card receivables	1,956	30,731
Other receivables	733	891
Merchandise inventories, net	5,335	5,115
Prepaid expenses and deferred charges	407	535
Deferred income taxes	708	749
Total current assets	18,196	39,983

Property and equipment

Land	392	442
Buildings and improvements	7,151	6,930
Furniture, fixtures and equipment	4,972	5,050
Capitalized leases	609	557
Gross property and equipment	13,124	12,979
Less accumulated depreciation	6,336	6,069
Total property and equipment, net	6,788	6,910

Deferred income taxes	378	734
Goodwill	943	944
Tradenames and other intangible assets	710	704
Other assets	708	1,134
TOTAL ASSETS	\$ 27,723	\$ 50,409

Source: Sears, Roebuck & Co. www.sears.com

LIABILITIES

Current liabilities

Short-term borrowings	\$ 1,033	\$ 4,525
Current portion of long-term debt and capitalized lease obligations	2,950	4,808
Merchandise payables	3,106	2,945
Income taxes payable	1,867	787
Other liabilities	2,950	3,753
Unearned revenues	1,244	1,199
Other taxes	609	580
Total current liabilities	<u>13,759</u>	<u>18,597</u>

Long-term debt and capitalized lease obligations	4,218	21,304
Pension and postretirement benefits	1,956	2,491
Minority interest and other liabilities	1,389	1,264
Total Liabilities	<u>21,322</u>	<u>43,656</u>

COMMITMENTS AND CONTINGENT LIABILITIES

SHAREHOLDERS' EQUITY

Common shares issued (\$. 75 par value per share, 1,000 shares authorized, 230.4 and 316.7 shares outstanding, respectively)	323	323
Capital in excess of par value	3,519	3,505
Retained earnings	11,636	8,497
Treasury stock - at cost	(7,945)	(4,474)
Deferred ESOP expense	(26)	(42)
Accumulated other comprehensive loss	<u>(1,106)</u>	<u>(1,056)</u>
Total Shareholders' Equity	<u>6,401</u>	<u>6,753</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 27,723</u>	<u>\$ 50,409</u>

Source: Sears, Roebuck & Co. www.sears.com