CASE STUDY: TOYS "R" US[1]

1. INTRODUCTION

Toys"R"Us is an American company dedicated to the toys retail since 1948. It is a well-known firm which has obtained reputation through the years. It focuses on meeting the needs of its customers and on offering a Customer Experience which gives the firm a competitive advantage. It also has a wide geographical diversification and product diversification. Currently, it's going through a complex situation, since it filed for bankruptcy in September 2017.

2. HISTORY OF TOYS "R" US

Charles P. Lazarus was the founder of Toys "R" Us (the actual second bigger toys retailer in terms of sales). His father had a bicycle shop and Charles dreamed to own a store by himself one day. After coming back from World War II, Lazarus, influenced by his uncle who had a baby furniture business, opened a baby furniture store: *Children's Bargain Town*, in Washington D.C. in 1948.

Two years later, he added some toys he sold along with the baby furniture. By that time, he had realized the difference between toys and furniture: toys broke and became old-fashioned with children. Because of this, parents had to visit more often the store, so the toys business was more lucrative. Customer demand for toys grew and Lazarus opted for including a wider range of toys in his stores.

In the late 1950s, a big change in the structure of Lazarus business would take place. He decided to restructure his business following a supermarket store (given the success self-service grocery supermarkets had experienced). He started offering a larger assortment of toys and allowed customers to serve themselves and use carts to shop. In 1957, Lazarus opened his first store which was only focused on toys: Toys "R" Us.

[1] Case written by Neus Bock, Núria Mallorquí, Laura Navarrete, Rosó Soler. With the supervision of Professor Oriol Amat. Universitat Pompeu Fabra, 2018.

1948	Inauguration of the first store: *Children's Bargain Town,* a baby furniture store
1952	Lazarus opens the first Baby Furniture and Toy supermarket
1957	Foundation of Toys"R"Us ®
1966	Company sold to Interstate Stores Inc
1974	Interstate Stores Inc goes bankrupt
1978	Name's company is changed to Toys"R"Us Inc Lazarus becomes the president and CEO It starts being listed in the New York Stock Exchange
1984	First international stores: in Canada and Singapore
1992	After rising some money in 1985, "Toys "R" Us Children's Fund" is created to improve conditions of children in precarious conditions.
1994	Lazarus leaves the position of Chairman and CEO, but his ideals will still be followed by the company
1996	Babies"R"Us is launched and Toys"R"Us first website is created
1997	Toys"R"Us buys Imaginarium and signs a partnership deal with Amazon to manage its online sales.
2000	John Eyler becomes the President and Chief Executive Officer
2001	Center of the Toy Universe is opened in New York City's Times Square
2003	Kids"R"Us closes (opened in 1983), even though the company keeps selling products using the brand
2005	Toys"R"Us leaves the stock market exchange and becomes a private company: Bain Capital Partners llc, Kohlberg Kravis Roberts&Co and Vornado Reality Trust acquire Toys"R"Us for $6.6 billion
2006	Gerald Storch is appointed the Chairman and Chief Executive Officer

2007	Inauguration of Toys”R”Us Express stores in shopping centers. Toys”R”Us obtains the exclusive right to operate FAO Schwarz® Acquisition of Etoys.com and toys.com
2013	Antonio Urcelay is appointed Chairman and Chief Executive Officer
2015	David Brandon becomes the Chairman and Chief Executive Officer *The Center of the Toy Universe* closes in December 2015
2016	Sale of FAO Schwarz® to *ThreeSixty Group Inc*
2017	Filing of Chapter 11 bankruptcy protection[2]

Figure 1. History and evolution of the company. Main events

3. BUSINESS MODEL

3.1 MISSION

Toys "R" Us is a world-wide known American company which focuses its attention on being the best toy and baby retail company for the world. It’s a business completely dedicated to children and its aim is to make them happier. In fact, their main goal is to **put huge smiles on the faces of children** by being the world’s greatest toy store.

According to Charles Lazarus, to achieve the success in the toy business, the key point is focusing on the everyday shopper: parents searching for the perfect birthday or Christmas gift or a child hoping to spend his allowance on a much-desired toy. Nowadays, Toys”R”Us keeps the same ideals and it tries to offer the customer a memorable shopping experience with:

- classic, in-demand and exclusive products
- unique feature shops
- toy-trained sales staff

[2] When a business is unable to service its debt or pay its creditors, the business can file Chapter 11 bankruptcy: by this, the debtor remains in control of its business operations and can restructure the business.

3.2 DISTINCTIVE FACTORS

Its target market includes children from all ages, but also the parents of these children, since they are the ones that eventually buy the toys.

It's important to highlight their educational commitment by providing a learning experience to children through playing. For this reason, they offer a wide-range of educational toys to promote learning and creativity.

They also focus on the shopping experience. They offer to the customer a good and different experience since the first moment he or she gets into the store.

There is an increasing importance in product safety which is essential for the company. For this reason, high product safety standards have been set, which even exceed USA requirements.

As far as Corporate Social Responsibility is concerned, Toys "R" US has a social and environmental commitment:

- **Social commitment:** Toys"R"Us feels it has a global responsibility. Because of this, it follows different initiatives in order to generate a positive impact to society. During its daily activity, it asks for integrity to their team members, executives and suppliers. Among their initiatives, a few examples are described as follows:
    - **Disaster Aid and Response:** In 2005, after the hurricane Katrina, Toys"R"Us donated six trucks full of toys and baby supplies including diapers, wipes, and formula.
    - **Charitable giving:** Over the past three decades, Toys"R"Us has given more than $100 million in product donations to children's charities. Furthermore, the Toys "R" Us Children's Fund Inc. (public charity affiliated with the Company), has donated more than $130 million to children's charities such as: Marine Toys, Make-A-Wish America, Special Olympics, St. Jude Children's Research Hospital and Save the Children.
- **Environmental commitment**: the company is implementing clean energy and efficient energy projects. The Rooftop solar project: On 2010, a rooftop solar power system was installed at the Babies"R"Us in North Brunswick. It was their first store to use solar energy. It provided around the 67% of the electricity needed for the store. On 2011, Toys"R"Us announced their plans to cover 70% of the roof of its distribution center (in Flanders, New Jersey) with a solar installation - the largest rooftop solar installation in North America.

3.3 CORPORATE GOVERNANCE

Toys "R" Us, Inc. is a private corporation since 2005, the year in which it went out of the stock market after being bought by *Bain Capital Partners llc*, *Kohlberg Kravis Roberts&Co* and *Vornado Reality Trust*.

The shares of common stock are privately held by the Sponsors[3], their officers, certain current and former employees and a private investor. On 2017, there were around 300 holders of the Common Stock.

Investment funds or groups affiliated with the Sponsors currently control Toys”R”Us through their ownership of 98% of their voting common stock. For this reason, the Sponsors have control over their decisions on corporate transaction and have the ability to prevent any transaction that requires the approval of stockholders. That’s why, the Sponsors have the capacity to strongly influence the company’s decisions.

Board of Directors: David A. Brandon is the current Chairman and Chief Executive Officer. He has deep experience in growing businesses and developing talent which enable organizations to create and capture value. Before coming to Toys”R”Us, he worked for well-known companies. He was, for instance, the Chairman and Chief Executive Officer of Domino’s Pizza: he led the company to profit growth and managed to successfully complete the largest initial public offering in restaurant history.

3.4 STRATEGY

With the arrival of Mr. Brandon in Toys”R”Us, together with new employees and the previously existing management team, four strategic growth initiatives have been set:

- Make talent and culture a competitive advantage: create a culture of high performance, responsiveness and agility in Toys“R”Us.
- Grow and build the Toys“R”Us and Babies“R”Us Brands throughout the world: invest in the existing stores and e-commerce platforms and continue to grow their brands globally.

[3] We refer as “Sponsors” to the investment group advised by or affiliated with *Bain Capital Private Equity, L.P.*, *Kohlberg Kravis Roberts & Co. L.P.*, and *Vornado Realty Trust* that acquired Toys”R”Us on 2005.

- Create a world class experience for their customers: keep on innovating and leading in their market, attending to their customers with the highest quality service.
- Have a solid financial basis

3.5 COMPOSITION

Toys“R”Us retailer store is composed by Toys"R"Us and Babies"R"Us. Altogether these stores sell merchandise at around 1,600 stores at the time of writing, including more than 800 international stores and 200 international licensed stores.

- **Toys”R”Us:** focused on the selling of toys for children.
- **Babies”R”Us:** the baby product retailer. It offers a broad selection of baby products, toys and other gifts for all the needs of parents, parents-to-be and their family.

Toys”R”Us employs 64.000 full-time and part-time individuals worldwide. As for the suppliers, the firm gets its merchandise from a wide range of domestic and international vendors (over 3.600). However, their top 20 vendors worldwide represent 43% of the total products they purchase.
Nowadays, there are many different types of Toys”R”Us stores. Some of them keep the traditional supermarket model format: it allows customers to pick up the products they want to buy and pay them at the register area. On the other hand, in 2006, Integrated stores model, in which we find the Toys”R”Us and the Babies”R”Us stores all combined in one store.

3.6 SEGMENTATION OF PRODUCTS

Toys “R” us offers a wide range of products apart from the conventional toys.

- **Baby:** focused on serving newborns and children up to four years of age. Products from baby gear, to furniture and room décor among others.
- **Core Toy:** toys for children such as action figures, dolls accessories, role play toys and vehicles
- **Entertainmen**t: video game software, tablet computers, electronics and other related products
- **Learning:** educational electronics and developmental toys, such as “Imaginarium” products in the United States and “World of Imagination” products at International locations. Includes construction toys, games, creative activities, pre-school merchandise.
- **Seasonal:** toys and other products geared toward holidays and summer activities, as well as bikes, sporting goods, play sets and other outdoor products.

Domestic:	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
Baby	**43.8%**	45.2%	**45.3%**	47.1%
Core Toy	**15.6%**	14.2%	**15.4%**	14.0%
Entertainment	**4.4%**	4.6%	**5.2%**	5.1%
Learning	**17.6%**	17.8%	**17.9%**	17.8%
Seasonal	**17.8%**	17.3%	**15.6%**	15.4%
Other (1)	**0.8%**	0.9%	**0.6%**	0.6%
Total	**100%**	100%	**100%**	100%

(1) Consists primarily of non-product related revenues.

Figure 2. Segmentation: Net sales by product category. Source: toyrus.com

4. INDUSTRY

4.1 COMPETITORS

At its peak, Toys ‘R’ Us was the leading toy retailer in the USA. Its main competition are other retailers such as Walmart and Target. However, the continued presence of online shopping such as Amazon.com have significantly hurt Toys ‘R’ Us. Other competitors, but less significant, are national and regional chains stores and local retailers. Also, national and local discount stores, consumer electronics retailers and supermarkets.

The first competitors we have to analyse are *the Big-box stores,* discount and mass merchandisers. They apply the strategy **”Everyday low prices”**, instead of the punctual discount prices that we find in Toys”R”Us. They’ve grown in number and in size. In them, a family can buy both a toy and the food in the same place, so there is no need to move to another store. One of the main big-box stores is **Walmart** which has stepped into the lead in the race for toy sales in 1999. It follows an aggressive discounting strategy and volume sales. This firm is increasing inventory with an emphasis on environmentally-friendly stock.

Another important competitor is **Target**, the second largest retail chain in the United States. It has been increasing its role in the battle for sales with an expanded holiday toy catalog, early holiday discounts and toy departments. Some of its discounts are addressed to younger customers through sponsored ads on social networks.

Another sector of competitors is coming from the **E-commerce**. We have to bear in mind that toys are an item suitable for online shopping because there's no need in observing it directly (as opposed to fruit, for instance). Therefore, it's understandable that the growing size of online companies is affecting negatively the sales of Toys"R"Us. **Amazon**, for example, is the largest seller of toy and baby products online in the US. Toys"R"Us is the third behind Walmart and Target when considering all US sales (both online and not). And Toys"R"Us is also the third, behind Amazon and Walmart when considering only online sales, as we can see in Figure 3.

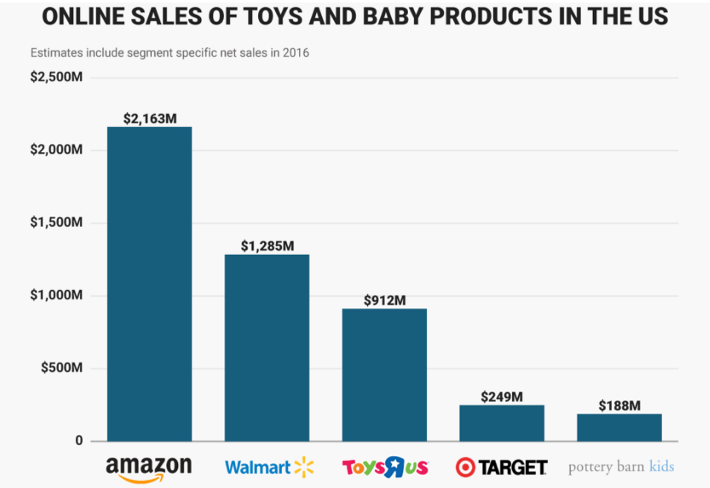

Figure 3. Online Sales of Toys and Baby Products in the US

Source*:* http://www.businessinsider.com/walmart-amazon-beat-toys-r-us-online-sales-2017-9

4.2 SWOT ANALYSIS OF THE RETAIL INDUSTRY

Strengths

Financially strong: the retail industry has easy access to capital and bank loans.
Working capital: this industry can benefit from the fact that it receives the money from its clients usually before the firm has to pay to its suppliers.

Weaknesses

Seasonality: The industry highly depends on Christmas' sales which makes the industry vulnerable in case there is a reduction on consumption during this period due to external factors such as strikes, attacks, political changes, etc.

Dependence to consumer spending patterns: the industry is adversely affected by factors reducing the consumer spending such as the consumer confidence, employment level, availability of credit, recessions, etc.

Fluctuations in consumer preferences: products must attract consumers whose preferences change according to fashion trends and seasons. That fact sometimes affects the stock since some purchases are made in advance of the holiday season when the preferences are not still evidenced.

Differentiation in the toys market is difficult. Because of this, competitors can only compete in terms of prices, availability and range of products.

Opportunities

Digital strategy: going digital will enable the firms to sell online but also to improve their interaction with consumers and their customers' experience (search and browse products and conduct transactions through the internet).

Better economic conditions: getting out of the crisis means higher consumer spending.

Threats

Rate of birth: a decrease in the birth rates that affects negatively the toy industry where the main goods are destined to kids and babies.

Highly competitive: the retail industry has been affected by the growth of the e-commerce and other competitors since there are not barriers of entries. As a consequence, there has been an increase in a battle for prices and promotional discounts, weaker margins, etc.

Change in toy demand: children are, every time, plus attracted to technological devices, instead of traditional toys.

5. SPECIAL ISSUES

5.1. FROM A LISTED COMPANY IN THE STOCK EXCHANGE TO A PRIVATE COMPANY. CONSEQUENCES OF THE ACQUISITION OF TOYS "R" US

In 2005, the company left the stock exchange and it was bought by *KKR & Co. LP, Bain Capital* and *Vornado Realty Trust* investors. It was a $6.6 billion leveraged buyout[4], and it caused a substantial increase in debt. During "The Merger" (term used by the company to refer to this

[4] **Leverage buyout:** is the acquisition of another company using a significant amount of borrowed money. It is used to make acquisitions without having to commit a lot of capital.

process) investors made cash contributions to equity valued in $1.3 billion. Then, through some of their subsidiaries, they got some liabilities (loans, mortgages, etc.) amounting $5.7 billion. This, together with $1.2 billion they had in cash, was used mainly to purchase stock.

	2006	2005
Total current liabilities	**2555**	**2601**
Long-term debt	5540	1860
Deferred tax liabilities	531	485
Deferred rent liabilities	260	269
Other NC liabilities	204	228
Total NC liabilities	**6535**	**2842**
Common stock	--	30
Additional paid-in capital	--	405
Retained earnings	-699	5560
Acc. other compr. loss	-55	-7
Unearned compensation	--	-5
Treasury shares, cost	--	-1658
Total stockholders' equity	**-724**	**4325**
Total liabilities and equity	**8366**	**9768**

Table 1. Liabilities and equity from the balance sheet (2005 and 2006)

Table 1, shows the change in the balance sheet between the period before and after the leverage buyout. As previously mentioned, there was an increase in non-current liabilities (especially long-term debt) along with a decrease in total stockholders' equity, which turned to deficit.

The increase in long-term liabilities provoked **high indebtedness**: it affects the situation of the company adding difficulties to increase debt, limiting the flexibility of the company -there are underlying covenants-, exposing it to higher interest rates and causing possible non-strategic divestitures.

Ratio	**2005**	**2006**
Current assets/ Current liabilities	1.694	1.139
Equity/assets	0.443	-0.092
Net profit/ assets	0.026	-0.049
Net profit/ equity=ROE	0.058	-0.530

Table 2. Some solvency ratios for 2005 and 2006

Observed in Table 2 is the capacity to pay debts which decreased substantially between the period of 2005 and 2006.

The problem which arose with that situation was that if this high volume of long-terms debts were not liquidated through the following years or, at least, resources to pay in the long term were not being created, the firm could have liquidity problems in the long-term. When in the future, long term debt had to turn into current term debt, the weight of debt over assets could be huge. This fact is crucial to understand the current situation of bankruptcy of the company, as well as its future performance.

5.2 BANKRUPTCY

On September 18, 2017, Toys”R”Us, Inc. filed for Chapter 11 bankruptcy protection. Brandon, the CEO of the company, stated the shops would carry on operating as usual and that this reorganization would be just the beginning of a new brilliant era.

At the time of writing, Toys “R” Us has filed a contract with the law firm *“Kirkland & Ellis”* in order to restructure its $400 million debt. Optimists claim that Christmas holidays will boost sales so that the situation might become more favourable. Thus, the 1.600 Toys”'R”Us and Babies”R”Us stores, which are spread out all over the world, continue to operate. Indeed, the company's operations outside of the U.S. and Canada are not a part of the protection proceedings.

Nowadays, Toys “R” Us carries approximately $5 billion in debt, much of which finds its roots in the leveraged buyout of 2005. The firm faced no imminent debt maturities until now. The delay of dealing with the indebtedness has been exhausted, as more than $400 million in debt is due to mature in 2018.

Once the firm realized that it could not secure financing to get through the holiday Christmas season, it decided to file for Bankruptcy. Toys “R” Us owners are now finding ways to restructure its $5 billion debt by reaching terms with its debt holders and other creditors. In addition, filing for bankruptcy has allowed the company to secure financing to continue to operate its stores.

6. APPENDIX: FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	**2017**	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**	**2013**	**%**	**2012**	**%**
CURRENT ASSETS	**3389**	**49,06**	**3288**	**47,58**	**3154**	**44,33**	**3220**	**42,65**	**3842**	**43,07**	**3437**	**38,87**
Cash and cash equivalents	566	8,19	680	9,84	698	9,81	644	8,53	1118	12,53	701	7,93
Accounts and other receivables	255	3,69	225	3,26	225	3,16	249	3,30	255	2,86	254	2,87
Merchandise inventories	2476	35,84	2270	32,85	2064	29,01	2171	28,76	2229	24,99	2232	25,24
Current deferred taxes	0	0	0	0	45	0,63	31	0,41	104	1,17	128	1,45
Prepaid expenses and other current assets	92	1,33	113	1,64	122	1,72	125	1,66	136	1,52	122	1,38
NON-CURRENT ASSETS	**3519**	**50,94**	**3622**	**52,41**	**3961**	**55,67**	**4329**	**57,35**	**5079**	**56,94**	**5405**	**61,13**
Property and equipment, net	3067	44,40	3163	45,77	3335	46,87	3638	48,19	3891	43,62	4052	45,83
Goodwill	64	0,93	64	0,93	64	0,90	64	0,85	445	4,99	448	5,07
Deferred tax assets	129	1,87	96	1,39	133	1,87	152	2,01	244	2,74	279	3,16
Restricted cash	54	0,78	52	0,75	53	0,75	53	0,70	16	0,18	30	0,34
Other assets	205	2,97	247	3,58	376	5,29	422	5,59	483	5,41	596	6,74
TOTAL ASSETS	**6908**	100,00	**6910**	100,00	**7115**	100,00	**7549**	100,00	**8921**	100,00	**8842**	100,00
SHORT TERM LIABILITIES	**2738**	**39,64**	**2798**	**40,49**	**2799**	**39,34**	**2516**	**33,33**	**2671**	**29,94**	**2729**	**30,86**
Accounts payable	1695	24,54	1699	24,59	1571	22,08	1488	19,71	1379	15,46	1447	16,37
Accrued expenses and other C. L.	897	12,98	994	14,38	1032	14,50	920	12,19	900	10,09	916	10,36
Income taxes payable	27	0,39	32	0,46	20	0,28	19	0,25	53	0,59	51	0,58
Current portion of long-term debt	119	1,72	73	1,06	176	2,47	89	1,18	339	3,80	315	3,56
LONG TERM LIABILITIES	**5462**	**79,07**	**5377**	**77,81**	**5411**	**76,05**	**5689**	**75,36**	**5765**	**64,63**	**5610**	**63,45**
Long-term debt	4642	67,20	4612	66,74	4612	64,82	4918	65,15	4990	55,94	4846	54,81
Deferred tax liabilities	75	1,09	64	0,93	112	1,57	96	1,27	135	1,51	154	1,74
Deferred rent liabilities	342	4,95	345	4,99	347	4,88	362	4,80	356	3,99	338	3,82
Other non-current liabilities	271	3,92	245	3,55	255	3,58	235	3,11	235	2,63	243	2,75
Temporary equity	132	1,91	111	1,61	85	1,20	78	1,03	49	0,55	29	0,33
EQUITY	**-1292**	**-18,70**	**-1265**	**-18,30**	**-1095**	**-15,39**	**-656**	**-8,69**	**485**	**5,44**	**503**	**5,69**
Treasury stock	0	0	0	0	-5	-0,07	-9	-0,12	-4	-0,04	-2	-0,02
Additional paid-in capital	72	1,04	67	0,97	68	0,96	49	0,65	47	0,53	35	0,40
Retained earnings (accumulated deficit)	-1124	-16,30	-1062	-15,40	-914	-12,85	-612	-8,11	445	4,99	426	4,82
Other comprehensive loss	-240	-3,47	-270	-3,91	-244	-3,43	-84	-1,11	-3	-0,03	44	0,50
TOTAL EQUITY AND LIABILITIES	**6908**	100,00	**6910**	100,00	**7115**	100,00	**7549**	100,00	**8921**	100,00	**8842**	100,00

Table 3. Consolidated Balance Sheet in US GAAP (2012-2017) (in millions of $)

CONSOLIDATED INCOME STATEMENT (In millions of $)	2017	%	2016	%	2015	%	2014	%	2013	%	2012	%
Net sales	11.540	100	11.802	100	12.361	100	12.543	100	13.543	100	13.909	100
Cost of sales	7.432	64,4	7.576	64,19	7.931	64,16	8.154	65,01	8.592	63,44	8.939	64,27
Gross margin	**4.108**	**35,6**	**4.226**	**35,81**	**4.430**	**35,84**	**4.389**	**34,99**	**4.951**	**36,56**	**4.970**	**35,73**
Selling, general and administrative expenses	3.480	30,16	3.593	30,44	3.920	31,71	4.010	31,97	4.040	29,83	4.029	28,97
Goodwill impairment	0	0	0	0	0	0	378	3,01	0	0	0	0
Other income, net	-149	-1,29	-88	-0,75	-53	-0,43	-37	-0,29	-53	-0,39	-44	-0,32
EBITDA	**777**	**6,73**	**721**	**6,11**	**568**	**4,6**	**38**	**0,3**	**963**	**7,11**	**989**	**7,11**
Depreciation and amortization	317	2,75	343	2,91	377	3,05	388	3,09	407	3,01	403	2,9
EBIT	**460**	**3,99**	**378**	**3,2**	**191**	**1,55**	**-350**	**-2,79**	**556**	**4,11**	**586**	**4,21**
Interest expense	-457	-3,96	-429	-3,63	-451	-3,65	-524	-4,18	-480	-3,54	-442	-3,18
Interest income	2	0,02	3	0,03	4	0,03	7	0,06	16	0,12	10	0,07
EBT	**5**	**0,04**	**-48**	**-0,41**	**-256**	**-2,07**	**-867**	**-6,91**	**92**	**0,68**	**150**	**1,08**
Income tax expense	34	0,29	76	0,64	32	0,26	169	1,35	53	0,39	-1	-0,01
Net (loss) earnings	**-29**	**-0,25**	**-124**	**-1,05**	**-288**	**-2,33**	**-1.036**	**-8,26**	**39**	**0,29**	**151**	**1,09**
Net earnings attributable to non controlling interest	7	0,06	6	0,05	4	0,03	3	0,02	1	0,01	2	0,01
NET PROFIT attributable to the parent company	**-36**	**-0,31**	**-130**	**-1,1**	**-292**	**-2,36**	**-1.039**	**-8,28**	**38**	**0,28**	**149**	**1,07**

Table 4. Consolidated Income Statement in US GAAP (2012-2017)

CASH FLOW STATEMENT (in millions of $)	2017	2016	2015	2014	2013	2012
Net loss	-29	-124	-228	-1036	39	151
Depreciation and amortization	317	343	377	388	407	403
Amortization and write-off of debt issuance costs and debt discount	40	28	59	51	36	35
Gains on sales of assets	-46	-20	-5	-8	-4	-3
Deferred income taxes	-24	17	-1	133	36	-43
Non-cash portion of asset impairments and other charges	5	20	20	49	22	18
Proceeds from settlement of derivatives	0	0	9	0	0	0
Unrealized (gains) losses on foreign exchange	-8	10	15	0	0	0
Goodwill impairment	0	0	0	378	0	0
Other	9	-1	23	37	6	-5
Changes in operating assets and liabilities:						
Accounts and other receivables	-27	-2	-6	-1	-9	1
Merchandise inventories	-221	-256	-16	13	-32	-92
Prepaid expenses and other operating assets	41	18	14	21	13	45
Accounts payable, Accrued expenses and other liabilities	-66	190	283	160	-4	-182
Income taxes payable, net	8	15	-8	-41	27	-9
Net cash (used in) provided by operating activities	**-1**	**238**	**476**	**144**	**537**	**319**
Capital expenditures	-252	-219	-207	-238	-286	-380
Increase in restricted cash	-6	-2	-5	-34	14	-14
Proceeds from sales of assets	48	13	18	35	20	24
Other		-2	1	52	-15	-58
Net cash used in investing activities	**-210**	**-210**	**-193**	**-205**	**-267**	**-454**
Long-term debt borrowings	2540	1451	2866	3159	1972	2236
Long-term debt repayments	-2409	-1472	-3010	-3491	-1802	-2396
Short-term debt borrowings, net	0	0	-12	-2	5	-11
Capitalized debt issuance costs	-37	-6	-35	-47	-25	-14
Distribution to non-controlling interest	-12	0	0	0	0	0
Other	-1	0	0	-7	-3	0
Net cash provided by (used in) financing activities	**81**	**-27**	**-191**	**-388**	**147**	**-185**
Effect of exchange rate changes on cash and cash	16	-19	-38	-25	0	8

equivalents						
Net increase during period	**-114**	**-18**	**54**	**-474**	**417**	**-312**
Cash and cash equivalents at beginning of period	680	698	644	1118	701	1013
Cash and cash equivalents at end of period	**566**	**680**	**698**	**644**	**1118**	**701**

Table 5. Consolidated Cash Flow Statement in US GAAP (2012-2017)

RATIOS		2017	2016	2015	2014	2013	2012
LIQUIDITY RATIOS							
Current ratio	Current assets / Current liabilities	1,24	1,18	1,13	1,28	1,44	1,26
Liquidity ratio	(Current assets – Inventories) / Current liabilities	0,3	0,32	0,33	0,36	0,51	0,35
Acid test	Cash / Current liabilities	0,21	0,24	0,25	0,26	0,42	0,26
DEBT RATIOS							
Indebtedness	Liabilities / Assets	1,19	1,18	1,15	1,09	0,95	0,94
Quality of debt	Current liabilities / Liabilities	0,334	0,342	0,341	0,307	0,317	0,327
Repayment capacity	Cash flow / Loans	0,122	0,147	0,151	0,131	0,224	0,145
Cost of debt	Financial expenses / Loans	0,098	0,093	0,098	0,107	0,096	0,091
Financial expenses	Financial expenses / Sales	0,040	0,036	0,036	0,042	0,035	0,032
ASSETS MANAGEMENT							
NCA turnover	Sales / Non current assets	3,279	3,258	3,121	2,897	2,666	2,573
CA turnover	Sales / Current assets	3,405	3,589	3,919	3,895	3,525	4,047
Inventory turnover	COGS (cost of good sold) / Inventories	3,002	3,337	3,843	3,756	3,855	4,005
Inventory terms	Inventory / Daily cost of sales	121,60	109,36	94,99	97,18	94,69	91,14
TERMS							
Days receivable	Customers / Daily cost of sales	8,07	6,96	6,64	7,25	6,87	6,67
Days payable	Suppliers / Daily cost of sales	83,25	81,86	72,30	66,61	58,58	59,08
RETURN ON EQUITY							
Margin	EBIT / Sales	0,039	0,032	0,015	-0,028	0,041	0,042
Turnover	Sales / Assets	1,671	1,708	1,737	1,662	1,518	1,573
Financial leverage	Assets / Equity * EBT / EBIT	-0,058	0,694	8,709	-28,51	3,044	4,500
Fiscal effect	Net profit /EBT	-7,2	-2,71	-1,140	-1,198	0,413	0,993
ROE	Net profit / Equity	-0,028	-0,103	-0,266	-1,583	0,078	0,296
RETURN ON INVESTMENTS							
ROI	EBIT / Assets	0,067	0,055	0,027	-0,046	0,062	0,066

Table 6. Ratios (2012-2017)

	RATIOS COMPETITORS	2017				2016				2015				2014			
	COMPANIES	**Toysrus**	Walmart	Target	Amazon	**Toysrus**	Walmart	Target	Amazon	**Toysrus**	Walmart	Target	Amazon	**Toysrus**	Walmart	Target	Amazon
LIQUIDITY	**Current ratio**	**1,24**	0,86	0,94	1,04	**1,18**	0,93	1,12	1,05	**1,13**	0,97	1,16	1,12	**1,28**	0,88	0,91	1,07
	Liquidity ratio	**0,30**	0,19	0,20	0,63	**0,32**	0,22	0,32	0,64	**0,33**	0,24	0,19	0,72	**0,36**	0,20	0,05	0,58
	Acid test	**0,21**	0,10	0,20	0,44	**0,24**	0,13	0,32	0,47	**0,25**	0,14	0,19	0,52	**0,26**	0,11	0,05	0,38
DEBT	**Indebtedness**	**1,17**	0,61	0,71	0,77	**1,17**	0,60	0,68	0,79	**1,14**	0,60	0,66	0,80	**1,08**	0,63	0,64	0,76
	Quality of debt	**0,34**	0,55	0,48	0,68	**0,35**	0,54	0,46	0,66	**0,34**	0,53	0,43	0,64	**0,31**	0,54	0,45	0,76
	Repayment capacity	**0,12**	0,52	0,39	1,36	**0,15**	0,48	0,44	0,83	**0,15**	0,51	0,04	0,55	**0,13**	0,44	0,32	1,11
	Cost of debt	**0,10**	0,05	0,08	0,06	**0,09**	0,05	0,05	0,06	**0,10**	0,05	0,07	0,03	**0,11**	0,04	0,08	0,04
	Financial expenses	**0,04**	0,00	0,01	0,00	**0,04**	0,01	0,01	0,00	**0,04**	0,01	0,01	0,00	**0,04**	0,00	0,01	0,00
MANAGE. A.	**NCA turnover**	**3,28**	3,44	2,73	3,61	**3,26**	3,46	2,82	3,68	**3,12**	3,46	2,64	3,84	**2,90**	3,32	2,16	4,79
	CA turnover	**3,41**	8,42	5,80	2,97	**3,59**	8,00	5,22	3,00	**3,92**	7,67	5,33	2,84	**3,90**	7,78	6,16	3,02
	Inventory turnover	**3,00**	8,39	5,88	7,70	**3,34**	8,12	6,05	7,00	**3,84**	8,09	6,19	7,56	**3,76**	7,98	6,04	7,31
	Inventory terms	**121,6**	43,49	62,06	47,39	**109,4**	44,96	60,38	52,18	**94,99**	45,13	58,95	48,27	**97,18**	45,73	60,38	49,93
TERM	**Days receivable**	**8,07**	4,38	0,00	22,38	**6,96**	4,26	0,00	19,29	**6,64**	5,09	0,00	23,02	**7,25**	5,12	0,00	23,37
	Days payable	**83,25**	63,66	82,07	161,5	**81,86**	59,27	81,81	156,7	**72,30**	58,57	82,16	152,8	**66,61**	58,28	79,84	147,0
ROE	**Margin**	**0,04**	0,05	0,07	0,03	**0,03**	0,05	0,07	0,02	**0,02**	0,06	0,06	0,00	**-0,03**	0,06	0,07	0,01
	Turnover	**1,67**	2,44	1,86	1,63	**1,71**	2,42	1,83	1,65	**1,74**	2,39	1,76	1,63	**1,66**	2,33	1,60	1,85
	Financial leverage	**-0,06**	2,29	2,73	3,85	**0,69**	2,22	2,77	3,74	**8,71**	2,27	2,37	-5,69	**-28,5**	2,46	2,19	3,22
	Fiscal effect	**-7,54**	0,67	0,69	0,61	**-1,67**	0,68	0,68	0,38	**-0,37**	0,66	-0,45	2,17	**0,20**	0,65	0,48	0,54
O	**EBIT/A**	**0,067**	0,11	0,13	0,05	**0,055**	0,12	0,14	0,03	**0,027**	0,13	0,11	0,002	**-0,05**	0,13	0,11	0,02

Table 7. Comparison of the ratios with competitors (2014-2017)

CONSOLIDATED BALANCE SHEET	July 2017		July 2016	
(in million $)		%		%
CURRENT ASSETS	**3259**	**49,11**	**3344**	**48,41**
Cash and cash equivalents	308	4,64	420	6,08
Accounts and other receivables	242	3,65	279	4,04
Merchandise inventories	2597	39,14	2513	36,38
Prepaid expenses and other C.A.	112	1,69	132	1,91
NON-CURRENT ASSETS	**3377**	**50,89**	**3563**	**51,59**
Property and equipment, net	3032	45,69	3106	44,97
Goodwill	64	0,96	64	0,93
Deferred tax assets	24	0,36	103	1,49
Restricted cash	60	0,90	52	0,75
Other assets	197	2,97	238	3,45
TOTAL ASSETS	**6636**	100,00	**6907**	100,00
SHORT TERM LIABILITIES	**5422**	**81,71**	**2338**	**33,85**
Accounts payable	1404	21,16	1359	19,68
Accrued expenses and other current liabilities	831	12,52	863	12,49
Income taxes payable	11	0,17	36	0,52
Current portion of long-term debt	3176	47,86	80	1,16
LONG TERM LIABILITIES	**2648**	**39,90**	**5993**	**86,77**
Long-term debt	2020	30,44	5216	75,52
Deferred tax liabilities	39	0,59	73	1,06
Deferred rent liabilities	343	5,17	343	4,97
Other non-current liabilities	246	3,71	242	3,50
Temporary equity	0	0	119	1,72
EQUITY	**-1434**	**-21,61**	**-1424**	**-20,62**
TOTAL EQUITY AND LIABILITIES	**6636**	100,00	**6907**	100,00

Table 8. Consolidated Balance Sheet in US GAAP. Comparison 2016-2017

7. QUESTIONS:

You are asked to prepare the following:

1. Prepare a qualitative analysis of Toys“R”Us including the main strengths and weaknesses.
2. Analyse the balance sheet, income statement and cash flow statement from 2017 to 2012 in order to identify the main financial strengths and weaknesses of Toys“R”Us.
3. Calculate the working capital of Toys”R”Us and the working capital needed in order to analyse their financing necessities.
4. Does Toys“R”Us have capacity to grow?
5. Calculate the Z score from 2003 to 2017. Could they have foreseen the insolvency of the company? In 2005, would you have recommended the investor to buy Toys”R”US with debt?
6. Analyse the ratios of Toys“R”Us and compare them to the ratios of the main competitors.
7. Prepare the Cause & Effect Diagram
8. Given the Balance Sheet of July 2017, analyse the causes that drove Toys”R”US towards bankruptcy. And give an opinion on the forecast of the company.
9. What measures would you recommend the company to apply so as to improve their performance? Demonstrate their effectiveness.