**Valuation: Measuring and Managing the Value of Companies**

**Henkel Integrative Case: Part III**

Competitive Benchmarking

**Introduction**

Understanding a company’s past is essential to forecasting its future. For that reason, a critical component of valuation is the robust analysis of historical performance. Always start with the key drivers of value: return on invested capital (ROIC) and revenue growth. Examine trends in the company’s long run performance and its performance relative to that of its peers, so you can base your forecasts of future cash flows on reasonable assumptions about the company’s key value drivers

**Instructions**

Using the financial statements provided for Henkel AG and Reckitt Benckiser plc, please build a 6-10 page presentation that compares the financial performance of the two companies. The presentation should address the four primary drivers of value:

1. **Growth**: How fast has each company grown (in revenues)? How much of the growth is driven by organic drivers versus acquisitions, divestitures, and currency swings? Is this growth consistent across Henkel’s divisions?
2. **Operating Margin**: What drives the difference between Henkel’s and Reckitt Benckiser’s operating margins (i.e. gross margin or selling expenses)? How do the operating margins for each company compare to the larger set of European Household and Personal Care companies? If we strip out Adhesives from Henkel’s numbers, does this explain the difference in performance?
3. **Invested Capital**: Which company (Henkel or Reckitt Benckiser) does a better job of managing working capital? How do receivables and inventories (measured in 365 sales days) compare? How do long-term assets, such as PP&E, compare across the companies? What about overall invested capital turns?
4. **Capital Structure and Financial Health**: Use each company’s notes (in their respective annual reports) to measure debt-to-book equity. What percentage of the capital structure is comprised of short-term versus long-term debt? Measure the EBITDA and EBITA to interest level for both companies.

Based on your analysis, which company is performing better (from a financial perspective), Henkel AG or Reckitt Benckiser plc?

**Helpful Locations, 2009 Annual Reports**

* Henkel’s interest expense can be found in note 8, page 92 in the company’s annual report.
* A description of Henkel’s debt can be found in notes 16, page 108 and note 35, page 111 in the company’s annual report.
* Reckitt Benckiser’s interest expense can be found in note 6, page 43 in the company’s annual report.
* A description of Reckitt Benckiser’s debt can be found in note 16, page 49 in the company’s annual report.

**Required Spreadsheets**

* Financial Data – Henkel
* Financial Data – Reckitt Benckiser
* Select Market Data