MWI Veterinary Supply, Inc.

Rachel Mickler
ACG 2021.001
Executive Summary

In fiscal year 2009, MWI Veterinary Supply, Inc managed to increase revenues and earnings, as well as increase stockholders return on investment even through the challenges faced by the animal health industry. Vendor consolidation, a decrease in consumer spending leading to a slow growth in the companion animal health product market, and volatility of commodity prices leading to a negative impact on production animal product sales are just a few of the challenges MWI faced. Even through this, MWI profitably expanded their business and have a positive outlook for the 2010 fiscal year. Due to value added services such as online sales, special order fulfillment, niche marketing, and an expanded sales force MWI is slated to continue to remain a profitable and growing business in the 2010 fiscal year. I would invest in MWI Veterinary Supply, Inc.

Introduction

- **CEO**
  - James F. Cleary, Jr.

- **Location of home office**
  - 651 S. Stratford Drive, Suite 100
    Meridian, ID 83642

- **Ending date of latest fiscal year**
  - September 30, 2009

- **Description of the principal products or services that the company provides**
  - Pharmaceuticals, Vaccines, and Parasiticides
  - Diagnostics, Capital Equipment, and Supplies
  - Veterinary Pet Food and Nutritional Products
  - Value-Added Services: Pharmacy Fulfillment, E-Commerce Platform, etc

- **Main geographic area of activity**
  - United States of America
Audit Report

• **Independent Auditors**
  – Deloitte & Touche LLP
    Boise, Idaho
    November 20, 2009

• The auditing company states that it is the responsibility of MWI to internally control their financial reporting. MWI must comply with regulations set forth by it’s CEO and CFO, and maintain quality records of the company’s transactions. These records must also follow generally accepted accounting principles. MWI must also internally monitor these transactions to detect any mistakes or misleading information. Deloitte and Touche, LLP found MWI Veterinary Supply, Inc. to be in compliance with these regulations as of 9-30-09.
Stock Market Information

- **Most recent price of the company’s stock**
  - $57.67 per share (Yahoo Finance)

- **Twelve month trading range of the company’s stock**
  - $39.95-$56.82 closing (Yahoo Finance)

- **Dividend per share**
  - $0.00 ([www.dailyfinance.com](http://www.dailyfinance.com)) N/A (Yahoo Finance)

- **Date of the above information**
  - September 28, 2010 (12 month range 9-28-09 to 9-28-10)

- **Your opinion about the company stock as an investment?**
  - Given the above information and from looking at the summary charts, I would buy the stock. I’m assuming that the reason MWI is not showing any payout of dividends is due to the stock rising so rapidly, and once it settles dividends will be paid.
Industry Situation and Company Plans

The animal health industry is facing challenges such as consolidation of vendors and decreased consumer spending on the companion animal side. (MWI annual report, 2009). This may be due in part to consumers still being cautious about their spending coming out of the late 2007-2009 recession. Increased volatility of commodities such as grains, feeder cattle, etc have caused a negative impact on the production animal side (MWI annual report, 2009). However, MWI had the highest forward P/E ratio of healthcare distributors as of 9-27-10 and a bullish trend has led companies such as SmarTrend to advise their subscribers to buy stock (www.mysmartrend.com). Due to its substantial growth in a fragmented market, MWI is slated to grow even more in 2010. Along these lines, MWI has acquired UK-based Centaur Services and plans to enter the international market (www.reuters.com).
Income Statement

•Is the format most like a single-step or multistep format?
  •Multistep

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>$119,552</td>
<td>$134,655</td>
</tr>
<tr>
<td>Income from Operations</td>
<td>$ 32,351</td>
<td>$ 40,463</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 19,917</td>
<td>$ 24,905</td>
</tr>
</tbody>
</table>

Gross Profit yielded the highest increase by $15,103 in 2009 from 2008 while Income from Operations increased by $8,112. Net Income was increased by just over 25%. 2009 was a better year overall than 2008.
Like the income statement, the balance sheet shows that 2009 was a better year financially for MWI Veterinary Supply. Just by looking at the above table, assets are higher, liabilities are lower, and stockholder’s equity is higher in 2009 than in 2008. When looking at the balance sheet as a whole, MWI had greater current assets in 2009, less total liabilities, and no long-term debt.
Statement of Cash Flows

• Are cash flows from operations more or less than net income for the past two years?
  • Less for both 2008 and 2009.
    • 2008 NI: $19,917  Cash flow from operations: $10,622
    • 2009 NI: $24,905  Cash flow from operations: $11,939

• Is the company growing through investing activities, i.e., buying property, plant and equipment and other long lived assets?
  • Yes. MWI used $3,246 in 2008 and $2,662 in 2009 for PPE acquisition, and listed business acquisition as part of cash flows from investing activities.

• What is the company’s primary source of financing, i.e., long-term loans, stock sales?
  • In 2008, the primary source was Proceeds from Stock options, while in 2009 it was Tax Benefit of Common Stock Options.

• Overall, has cash increased or decreased over the past two years?
  • Cash decreased in 2008 from 2007, and increased in 2009 from 2008.
Accounting Policies

• What are the significant accounting policies, if any, relating to revenue recognition, cash, short-term investments, inventories, and property and equipment?

• **Revenue Recognition:** Buy/sell transactions to customers are recognized as Product Sales on delivery to customer. Net sales tax and commissions payable are also recognized.

• **Cash:** Recognized as highly liquid investments, ability to fund outstanding checks.

• **Inventory:** Stated at lower of cost or market value.

• **Property and Equipment:** Stated at cost. Depreciation computed by straight-line method over estimated useful life of property or equipment.
Accounting Policies

List the topics of the notes to the financial statements.

– Business Description and Basis of Presentation.
– Summary of Significant Accounting Policies
  • Principles of Consolidation
  • Basis of Accounting and Use of Estimates
  • Segment Information
  • Revenue Recognition
  • Cost of Product Sales and Vendor Rebates
  • Customer Incentives
  • Cash and Cash Equivalents
  • Inventories
  • Property and Equipment
  • Goodwill and Intangible Assets
  • Other Assets
  • Earnings per Common Share
  • Income Taxes
  • Concentrations of risk
  • Advertising
  • Recently Issued and New Accounting Pronouncements
– Business Acquisitions
– Receivables
– Property and Equipment
– Intangibles
– Revolving Credit Facility and Long Term Debt
– Common Stock and Stock Based Awards
– Computation of Earnings per Common Share
– Income Taxes
– Statements of Cash Flows
– Commitments and Contingencies
– Related Party Transactions
– Employee Benefit Plans
– Financial Instruments
– Quarterly Financial Data (Unaudited)
In 2009, working capital was greater, as was current ratio (better short-term debt paying ability), avg. days sales uncollected (they had to wait longer on avg. to receive payment for credit sales or collect A/R), and inventory turnover (higher number of times inventory was sold during accounting period). In 2008, receivables turnover was greater (avg. number of times receivables were turned into cash during accounting period), as was avg. days inventory on hand (avg. number of days it took to sell inventory on hand).

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<tbody>
<tr>
<td>Working Capital</td>
<td>$148,377</td>
<td>$120,561</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>2.14</td>
<td>1.90</td>
</tr>
<tr>
<td>Receivables Turnover</td>
<td>9.61</td>
<td>10.69</td>
</tr>
<tr>
<td>Avg. Days Sales Uncollected</td>
<td>37.98</td>
<td>34.14</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>6.95</td>
<td>6.01</td>
</tr>
<tr>
<td>Avg. Days Inventory on Hand</td>
<td>52.52</td>
<td>60.73</td>
</tr>
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In 2009 profit margin was higher, meaning a higher percentage of each sales dollar that contributed to net income. Also higher in 2009 was asset turnover (assets used more efficiently to produce sales), ROA (assets used more efficiently to produce income), and ROE (higher amount earned by MWI in relation to dollars invested by stockholders). 2009 was a more successful year than 2008.
Debt to Equity was higher in 2008. This calculation determines what proportion of a company’s assets is financed by creditors and stockholders. It is a measurement of the company’s leverage. MWI does not have a high D/E, so they do not rely heavily on outside sources to finance their assets.
Financial Analysis
Market Strength Ratios

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</tr>
</thead>
<tbody>
<tr>
<td>Price/Earnings per Share</td>
<td>N/A no dividend or yield data available</td>
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</tr>
<tr>
<td>Dividend Yield</td>
<td>N/A no dividend or yield data available</td>
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</tr>
</tbody>
</table>

MWI shows no dividend or yield information for the past several years. Unable to calculate figures.