# Getting and Spending . . .

# The Corporate Dollar

Financing their growing sales and production needs is one of the biggest tasks facing the nearly 400,000 business firms in the Sixth Federal Reserve District. Since the economic fortunes of the District depend on how well business units do in getting and spending their money, a picture of financing methods used by District firms will show how the region's economy has developed in recent years. One part of the picture is seen by looking at how a number of large local corporations financed their growth over the five years from 1950 through 1954.

## A Knothole View

Peeking through a knothole is never the best way to watch a ball game. Similarly, observing the actions of a few large companies and then forming conclusions about all companies or even about all large firms leaves much to be desired. Nevertheless, the published financial accounts of a sample of 61 large manufacturing and trade corporations with head offices in the six states served by the Federal Reserve Bank of Atlanta does give an intriguing view of how some firms are meeting their financing problems. The number of firms in each industry group in the sample is shown in the accompanying table.

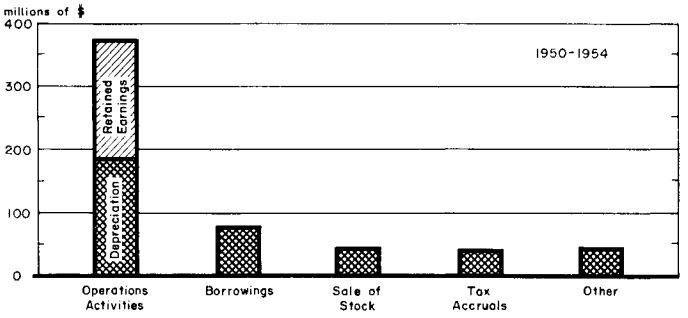
**Number of Firms and Industries Represented in Sample of Large District Corporations**

| | |
|---|---|
| Food, liquor, and tobacco | 14 |
| Textile, apparel, and leather | 9 |
| Metals | 7 |
| Petroleum, coal, chemicals, and rubber | 4 |
| Building materials | 4 |
| Other manufacturing | 4 |
| Extractive industries | 5 |
| Trade | 14 |
| Total | 61 |

*NOTE*: Sampled firms may include some with head offices in those portions of the six states outside the Sixth Federal Reserve District.

One good way of learning about regional problems is to use the national picture as a yardstick. In this case, such a yardstick is available in the form of data on a group of large national corporations whose accounts have been studied and published by the staff of the Board of Governors of the Federal Reserve System. Since utilities, communications, and railroad firms are omitted from the District sample, they have been taken out of the national sample. The sample for the nation contained 244 firms from 1950 through 1952, but only 242 thereafter because of mergers. As might be expected, firms in the District sample are smaller, averaging 20 million dollars in assets in 1954, compared with over 300 million dollars for the sample of large national firms. The District sample is also more heavily weighted by producers of nondurable goods, a characteristic typical of District industry.

**Large District firms met most cash needs from operating activities.**

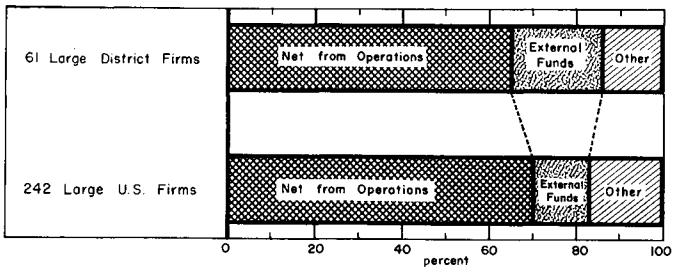



## Where the Money Came from

Funds obtained from their own operations was the most important source of financing the growth of District business firms if the experience of local large corporations is representative. Over the five-year period from the beginning of 1950 through the end of 1954, the 61 large manufacturing and trade firms located in the states of the Sixth District took in over 9 billion dollars from sales of their products. After paying for producing and distributing these goods, however, they had only about 800 million left and half of that went for income taxes. They paid out 56 percent of the remainder as dividends to stockholders, a dividend payout approximately the same in percentage terms as that of the 242 firms in the national sample. In the end, the concerns in the District sample had 187 million dollars left out of profits to add to their resources.

Retained earnings are only a part of the total cash funds arising from a firm's internal operations. Funds set aside to cover the wear and tear on equipment and to maintain a firm's ability to produce are also a part of them. For the 61 large District corporations being studied, yearly reserves for depreciation during the 1950-54 period were running nearly as high as retained earnings. Both in the District and the nation, cash funds from internal operations were the firms' chief means of financing.

**External funds were more important for District firms than for national firms (1950-1954).**

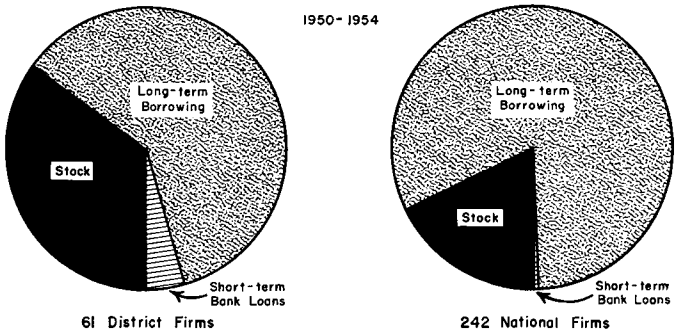


## To Market, to Market, to Raise a Fat Buck

More trips to the market to raise funds for expansion were needed by District firms than national firms. Whereas 21 percent of all funds utilized by the 61 firms in the District sample came from bank borrowing, bond issues, or the sale of stocks, only 13 percent of funds used by 242 national firms came from outside sources. Altogether the 61 District firms obtained from institutions and individuals some 117 million dollars, most of it in the form of borrowed funds but a large part in new equity capital.

One clue to the reason why firms in the District found it necessary to rely more on outside sources of financing than did their national counterparts is suggested by the experience of the large corporations in the samples. Taken as a group, the District firms had slightly smaller net

**Stock issues were a greater source of external funds for District firms.**

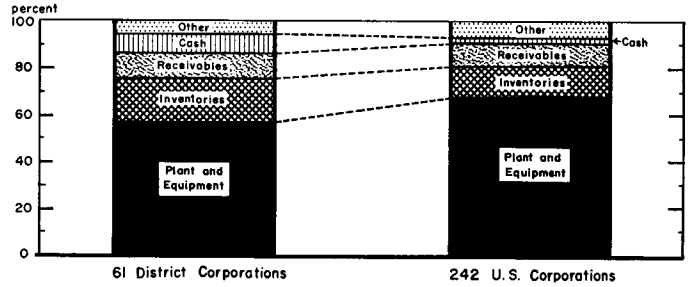



profits per dollar of sales or per dollar of assets than did the 242 corporations, and they may have found their power to generate cash for expansion purposes needed greater assistance from outside financing. The District firms did not experience greater rates of growth in either assets or sales.

Short-term credit from banks is particularly vital to Southeastern corporations because inventories and receivables, which are ordinarily financed by revolving bank loans, make up a greater proportion of the total assets of corporations in the nondurable goods industries than in the so-called heavy industries. Since short-term credit is principally relied upon to finance seasonal peak requirements, however, year-to-year comparisons frequently give misleading impressions of the importance of this type of financing. Thus its true significance in the period under study is obscured when viewed in the light of the fact that the 61 District firms obtained only one percent of their total funds from this source.

Long-term borrowing requirements are more accurately depicted by analyzing the annual financial statements of corporations; the 71-million-dollar borrowings by District firms for periods of over one year probably give a pretty good indication of the importance of long-term credit. Whereas the 242 national firms obtained only 11 percent of their funds from long-term bank loans, mortgages, private placements with insurance companies, and public issues of bonds, the 61 District firms borrowed 13 percent from these sources. Relative to the total amount of funds raised outside the firm, however, large District firms utilized long-term borrowing substantially less than did national firms, relying somewhat more on short-term bank credit and capital stock issues.

**Plant and equipment took more than half of the firms' funds in both the District and the nation (1950-1954).**




Capital stock issues are three times more important as a source of outside financing for District firms than for national firms, according to the samples. All told, over the five years some 40 million dollars was raised in stock issues by the 61 District firms even though the number of such issues was relatively small. Preferred issues greatly predominated over common as a source of such funds. Greater use of capital stock issues by District corporations may reflect not only the smaller size of corporations in the six states but also the necessity of providing an equity cushion for expanded borrowing.

Among other sources of funds for the District corporations were trade payables, accrued Federal income tax liabilities, and other current liabilities. Relative to the funds generated from the firms' own operations and obtained from outside sources, however, these sources were of minor importance in both the District and the nation.

## Where Does It Go?

Most of the money left after paying wages and salaries and other operating expenses goes to maintain the physical production facilities and assure the future growth of the business. Plant and equipment expenditures was the greatest single use of funds by the District sample of 61 large manufacturing corporations. Of the 568 million dollars generated within the firm and raised from outside sources, 324 million dollars, or 57 percent, went for bricks and mortar, new machinery, and upkeep on existing facilities. At that, however, the sampled District firms over the five years spent less of their incoming funds for plant and equipment purposes than did the national firms.

Why were plant and equipment requirements less for large District firms than for national firms—proportionate to the total use of funds? For one thing, it took less fixed property to turn a dollar of sales in the District, which is undoubtedly a reflection of the heavy concentration of nondurable goods production in the District. Also, since the nondurables industries have not experienced as high a rate of growth in the last five years as have durables industries, presumably the pressure on capacity has not been as great for District firms. This has been reflected in a smaller growth rate in sales of the sampled District corporations.

On the other hand, between 1949 and 1954, District

## COMPOSITE SOURCES AND USES OF FUNDS, BALANCE SHEET AND INCOME STATEMENT
### 61 Large Corporations with Head Offices in District States

(In Millions of Dollars)

**Sources and Uses of Funds**

| | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| **Sources of Funds** | 138.9 | 158.1 | 79.3 | 94.1 | 97.5 |
| Net from operations | 71.7 | 69.1 | 64.9 | 81.4 | 84.4 |
| Trade payables | 9.0 | 8.1 | 1.2 | - 1.7 | - 2.7 |
| Bank loans, short-term | 10.9 | 7.6 | 9.2 | -16.4 | - 6.2 |
| Bank loans, long-term | 10.7 | - 3.2 | 18.2 | 9.4 | 4.3 |
| Accrued Federal income taxes | 21.9 | 37.4 | -22.9 | 2.8 | - .6 |
| Other current liabilities | 4.8 | 3.4 | 1.6 | 1.8 | 6.7 |
| Mortgages, bonds, other liabilities | 7.7 | 25.8 | - 3.3 | 7.5 | - 6.2 |
| Capital stock | .5 | 8.1 | 8.3 | 8.1 | 16.1 |
| Other sources | 1.7 | 1.8 | 2.1 | 1.2 | 1.7 |
| **Uses of Funds** | 138.9 | 158.1 | 79.3 | 94.1 | 97.5 |
| Plant and equipment expenditures | 53.0 | 77.1 | 65.9 | 62.3 | 65.6 |
| Inventories | 36.7 | 54.6 | 12.9 | - 9.4 | 13.7 |
| Receivables | 26.6 | 12.6 | 10.7 | - .2 | 10.6 |
| Cash | 5.9 | 1.9 | 1.0 | 25.6 | 11.7 |
| Government securities | 2.8 | 3.6 | -13.0 | 15.2 | - 6.6 |
| Other assets | 13.9 | 8.3 | 1.8 | .6 | 2.5 |
| Other uses | 0 | 0 | 0 | 0 | 0 |
| **Gross uses (sources)** | 138.9 | 161.3 | 118.5 | 121.6 | 119.7 |

**Balance Sheet and Income Statement**

| | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| **Total assets (end of year)** | 950.7 | 1070.3 | 1112.3 | 1161.0 | 1222.9 |
| Cash | 110.9 | 112.8 | 113.8 | 139.4 | 152.8 |
| Government securities | 46.8 | 50.4 | 37.4 | 52.6 | 47.7 |
| Receivables, net | 146.8 | 159.8 | 171.0 | 171.1 | 184.7 |
| Inventories | 217.3 | 271.6 | 284.4 | 274.9 | 294.4 |
| Plant and equipment | 376.1 | 420.5 | 448.8 | 465.7 | 481.6 |
| Other assets | 52.8 | 55.2 | 56.9 | 57.3 | 61.7 |
| **Total liabilities and equity** | 950.7 | 1070.3 | 1112.3 | 1161.0 | 1222.9 |
| Notes payable to banks, short-term | 22.9 | 30.8 | 40.0 | 25.1 | 19.3 |
| Trade notes and accounts payable | 56.7 | 64.8 | 67.3 | 65.7 | 65.0 |
| Accrued Federal income taxes | 68.9 | 107.3 | 84.9 | 88.0 | 86.7 |
| Other current liabilities | 28.1 | 34.0 | 35.0 | 37.1 | 42.7 |
| Notes payable to banks, long-term | 37.7 | 34.1 | 51.9 | 60.1 | 73.9 |
| Mortgages, bonds, other liabilities | 80.3 | 103.9 | 89.0 | 96.0 | 84.4 |
| Surplus reserves | 15.8 | 13.3 | 14.1 | 11.6 | 14.7 |
| Capital stock | 216.3 | 232.3 | 241.2 | 250.6 | 263.9 |
| Surplus | 424.0 | 449.8 | 488.9 | 526.8 | 572.3 |
| **Income statement:** | | | | | |
| Sales (1950-52, 58 Cos.; 1953-54, 59 Cos.) | 1561.6 | 1857.4 | 1930.0 | 2111.3 | 1727.5 |
| Depreciation | 26.2 | 31.5 | 36.5 | 42.8 | 47.5 |
| Profit before income taxes | 155.8 | 184.3 | 151.4 | 168.7 | 173.1 |
| Net profit | 92.0 | 86.8 | 75.3 | 86.6 | 91.5 |
| Dividends | 46.7 | 48.9 | 46.8 | 48.5 | 52.1 |

NOTE—Figures for the sources and uses analysis were derived from income data and year-to-year changes in balance sheet accounts. Asset write-ups and write-downs, stock dividends, and other nonfund bookkeeping transfers are not shown separately, but are eliminated from the income data and changes in balance sheet accounts. Negative figures in the Sources of Funds section represent uses of funds; negative figures in the Uses of Funds section represent sources of funds. Gross uses include negative sources; gross sources, negative uses. Details may not add to totals because of rounding. A more precise explanation of techniques and definition of accounts are given in "Financing of Large Corporations in 1954," *Federal Reserve Bulletin,* June, 1955.

firms expanded their inventories of raw materials, goods in process, and finished goods at a substantially higher rate than did large national corporations (63 percent against 50 percent). Thus, more of the District firms' incoming funds, proportionate to the total, were required for this purpose. Some part of the increase in inventories in 1954, of course, was undoubtedly the result of depressed conditions in that year which perhaps resulted in more goods in stock at the year's end than had been anticipated.

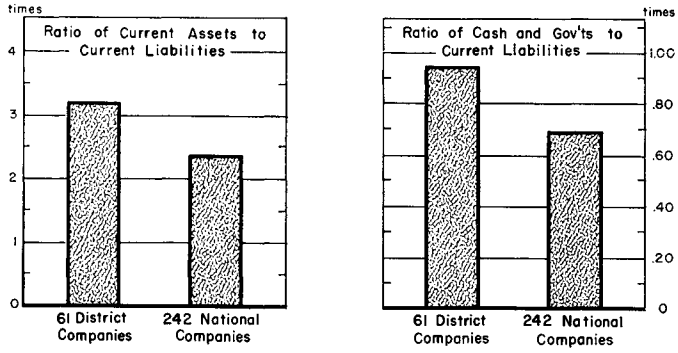
Most larger corporations do a substantial business financing their customers. Over the five-year period, 62 million dollars, or 11 percent of corporate funds for the 61 Southeastern firms, went for increases in trade receivables held by these firms. At that, though, the District companies expanded their receivables by only 54 percent, in comparison with 89 percent for large United States companies. District firms, of course, by the nature of their business, have always financed a greater proportion of their customers than have national firms.

### For a Rainy Day

District businesses also set aside part of their incoming funds to increase their savings and working balances. Thus, the 61 corporations whose accounts were analyzed used about 8 percent of their incoming funds after payment of operating expenses and taxes to increase their liquid balances. Although the national corporations devoted slightly less of their inflowing funds to this purpose, they also increased their balances. Most of the increase in liquid balances for the large Southern corporations, however, was in their cash, but in the case of the national firms most of the increase came in holdings of Governments.

At the end of 1954 District businesses were probably in a more liquid position than firms in the nation. Although both held about 16 percent of their assets in cash or Governments, the 61 District firms' holdings of cash and Governments covered a higher proportion of current indebtedness for short-term loans and trade payables than

**In 1954 the short-term liquidity position of District firms was better than that of national firms.**




the national firms' did. And District firms were more successful in increasing net working capital—their current assets expanded at a greater rate and their current liabilities at a slower rate.

The 61 local firms whose accounts were studied did not include (1) companies with head offices outside of District states but with branch operations here, (2) local corporations that do not make public their financial accounts, and (3) unincorporated enterprises. Even so, the experience of the 61 District firms suggests a few conclusions about how District businesses have raised money since the Korean War. Cash supplied by the firms themselves was the most important source of money used for expansion purposes. More than national companies though, local businesses were dependent upon money raised from outside sources. They had to borrow more of their required cash and had to sell more stock. These facts indicate the heavy dependence of continued District development on properly functioning financial markets.

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