

TECH Practices

By Ariel Markelevich, CMA

Peer Benchmarking Made Easy with XBRL

Peer benchmarking is a key component of any company's financial planning and risk analysis. But while most business leaders understand the importance and engage in some form of peer company analysis, most don't reap its full benefits because it's difficult to collect robust peer data in an efficient manner and to put that data to work. The good news is that interactive financial reporting can help solve this problem.

The Business Case for Benchmarking

In recent conversations with corporate finance professionals, I was surprised to learn how often benchmarking is neglected. It seems that relatively few financial planning and analysis (FP&A) professionals have the time or knowledge to regularly collect and analyze their competitors' public filing data in a comprehensive way. It's a shame because there's so much valuable information sitting in the filings of the Securities & Exchange Commission (SEC), and this analysis is exactly what fund managers and Wall Street analysts are using to judge performance. If a company's stakeholders are using this data,

finance leaders should be, too.

Benchmarking can be used to overcome competitive pressure to drive financial stability and to set strategic business goals. This should be a flagship component in key planning, analysis, and risk mitigation practices across the corporate finance function.

FP&A: Examine your firm compared to your peers, and use that to determine what you're doing wrong or what you could be doing better. Focus on key ratios, such as Days in Inventory or Debt to Equity, and you may be surprised by what's driving other companies' successes or failures as well as your own.

Mergers and Acquisitions: Review the financial performance of a custom set of firms to provide support to the decision-making process for identifying and analyzing potential targets. This will speed up due diligence and better inform the decision-making process.

Risk Analysis: Analyze internal company risk as well as risk across the supply chain. This will help you gauge your relative stability and identify areas that need more attention. Equally important is evaluating firms across your supply chain to detect threats from the outside.

XBRL: The New Frontier

So why *is* there newfound attention on benchmarking? The simple answer is eXtensible Business Reporting Language (XBRL).

Following the 2009 requirement that companies in the United States file their financial information using XBRL, new technologies emerged that make SEC filing data much easier to work with. The Benchmark Suite by Calcbench allows users to build and monitor groups of companies and review their key financial metrics side by side with ease. Other tools, such as I•Metrix by EDGAR Online and Crossfire by Rivet, provide interactive features that pull XBRL data into Excel.

While adoption of XBRL for this purpose is still in its infancy, those who have embraced these practices are benefitting immensely and are using it to get an edge on their peers. Let's consider an example using Analog Devices, Inc. (ADI), a semiconductor manufacturer, to go over the process of benchmarking using interactive data.

Step 1: Define a Peer Group

The first step is to create a meaningful



Figure 1: List of Peers

Looking at: **3674 SEMICONDUCTORS & RELATED DEVICES** [\(save as peer group\)](#) [add/edit filter](#) [clear filter](#)
 assets > 1500000000 and assets < 10000000000

Show 100 ▾ entries

Company	Add Prev Period For All Cols	Assets Year 2012 -->help	Revenue Year 2012 -->help
Mouse over number to view date range Double click number to trace. Right Click to chart.		\$72,471,811,000 avg: \$3,623,590,550	\$50,706,327,000 avg: \$2,535,316,350
ADVANCED MICRO DEVICES INC (AMD)		\$4,000,000,000	\$5,422,000,000
ALTERA CORP (altr)		\$4,657,828,000	\$1,783,035,000
AMKOR TECHNOLOGY INC (amkr)		\$3,025,215,000	\$2,759,546,000
ANALOG DEVICES INC (adi)		\$5,620,347,000	\$2,701,142,000
Avago Technologies LTD (avgo)		\$2,862,000,000	\$2,364,000,000
CREE INC (cree)		\$3,052,410,000	\$1,385,982,000
FAIRCHILD SEMICONDUCTOR INTERNATIONAL INC (FCS)		\$1,883,900,000	\$1,405,900,000
Freescale Semiconductor, Ltd. (FSL)		\$3,171,000,000	\$3,945,000,000
JDS UNIPHASE CORP /CA/ (jdsu)		\$1,715,200,000	\$1,676,900,000
LINEAR TECHNOLOGY CORP /CA/ (ltcr)		\$2,098,341,000	\$1,282,236,000
LSI CORP (LSI)		\$2,356,165,000	\$2,506,087,000
MARVELL TECHNOLOGY GROUP LTD (MRVL)		\$5,261,764,000	\$3,168,630,000
MAXIM INTEGRATED PRODUCTS INC (MXIM)		\$3,935,910,000	\$2,441,459,000
MICROCHIP TECHNOLOGY INC (mchp)		\$3,851,405,000	\$1,581,623,000
MICROSEMI CORP (MSCC)		\$1,934,630,000	\$1,012,495,000
NVIDIA CORP (nvda)		\$6,412,245,000	\$4,280,159,000
NXP Semiconductors N.V. (NXPI)		\$6,439,000,000	\$4,358,000,000
ON SEMICONDUCTOR CORP (onnn)		\$3,328,400,000	\$2,894,900,000
SKYYWORKS SOLUTIONS, INC. (swks)		\$2,136,600,000	\$1,568,581,000
XILIX INC (xlnx)		\$4,729,451,000	\$2,168,652,000
Company	Add Prev Period For All Cols	Assets Year 2012 -->help	Revenue Year 2012 -->help

Showing 1 to 20 of 20 entries

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group to compare to ADI. We start by selecting a predefined Standard Industrial Classification (SIC) code (in this case, 3674 Semiconductors). Too many companies appear—146 to be exact—so we

filter by Assets to find firms similar in size. ADI has assets of \$5.6 billion, so the filter is set to \$1.5 billion to \$10 billion, reducing the group to 28 companies.

We also want to filter out companies that aren't really peers. For example, some solar cell manufacturers also appear, so we filter them out. The final group contains 20 companies (see Figure 1).

Figure 2: ADI's Performance Compared to Peers

Analytics for: ANALOG DEVICES INC

Fiscal Year 2012

	Value	% Chg YoY	'Common Size'					
			Value	as % of	Peer Group Average	Peer Group Median	Peer Group Percentile Rank	
Income Statement								
Revenue	\$2,701,142,000	-9.76%	100%		\$2,437,970,364	\$2,266,326,000	64	Chart
Cost Of Revenue	\$960,141,000	-4.63%	35.55%	Revenue	51.12%	51.27%	18	Chart
Gross Profit	\$1,741,001,000	-12.36%	64.45%	Revenue	48.88%	48.73%	77	Chart
Research & Development	\$512,003,000	1.27%	18.96%	Revenue	17.85%	17.18%	64	Chart
S. G. & A.	\$396,519,000	-2.50%	14.68%	Revenue	14.76%	14.42%	50	Chart
Operating Expenses	\$916,953,000	0.27%	33.95%	Revenue	34.83%	36.32%	41	Chart
Operating Ex. Items	\$8,431,000	276.55%	0.31%	Revenue	0.65%	0.49%	36	Chart
Operating Income	\$824,048,000	-23.13%	30.51%	Revenue	14.02%	10.37%	82	Chart
EBIT	\$825,507,000	-22.96%	30.56%	Revenue	12.77%	8.77%	82	Chart
Interest & Investment Income	\$14,448,000	59.47%	0.53%	Revenue	0.35%	0.31%	75	Chart
Interest Expense	\$26,422,000	38.00%	0.98%	Revenue	1.93%	1.79%	29	Chart
EBITDA	\$935,340,000	-21.38%	34.63%	Revenue	20.81%	19.33%	82	Chart
Earnings Before Taxes	\$813,533,000	-23.36%	30.12%	Revenue	11.67%	8.69%	82	Chart
Income Taxes	\$162,297,000	-19.08%	6.01%	Revenue	1.88%	1.20%	86	Chart
Tax Rate %	19.95%	5.59%	-		16.22%	19.18%	54	Chart
Net Income	\$651,236,000	-24.92%	24.11%	Revenue	9.69%	7.94%	82	Chart
Common Stock Dividends Per Share	\$1.15	22.34%	-		\$0.74	\$0.96	78	Chart

Step 2: Collect and Standardize the Data

The next step is to gather data from the group and standardize it. Let's focus on ADI's performance and financial position as compared to the group, starting with the income statement (Figure 2), balance sheet, and key financial ratios.

Step 3: Compare Data

With the data gathered, we're ready to benchmark ADI to the group. A few immediate items jump out. The firm ranks in the top quartile for gross profit, which may have been a result of controlling its cost structure well, as indicated by the

low percentile of cost of revenue. The ranks of earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation, and amortization (EBITDA) are also high, indicating strong profitability.

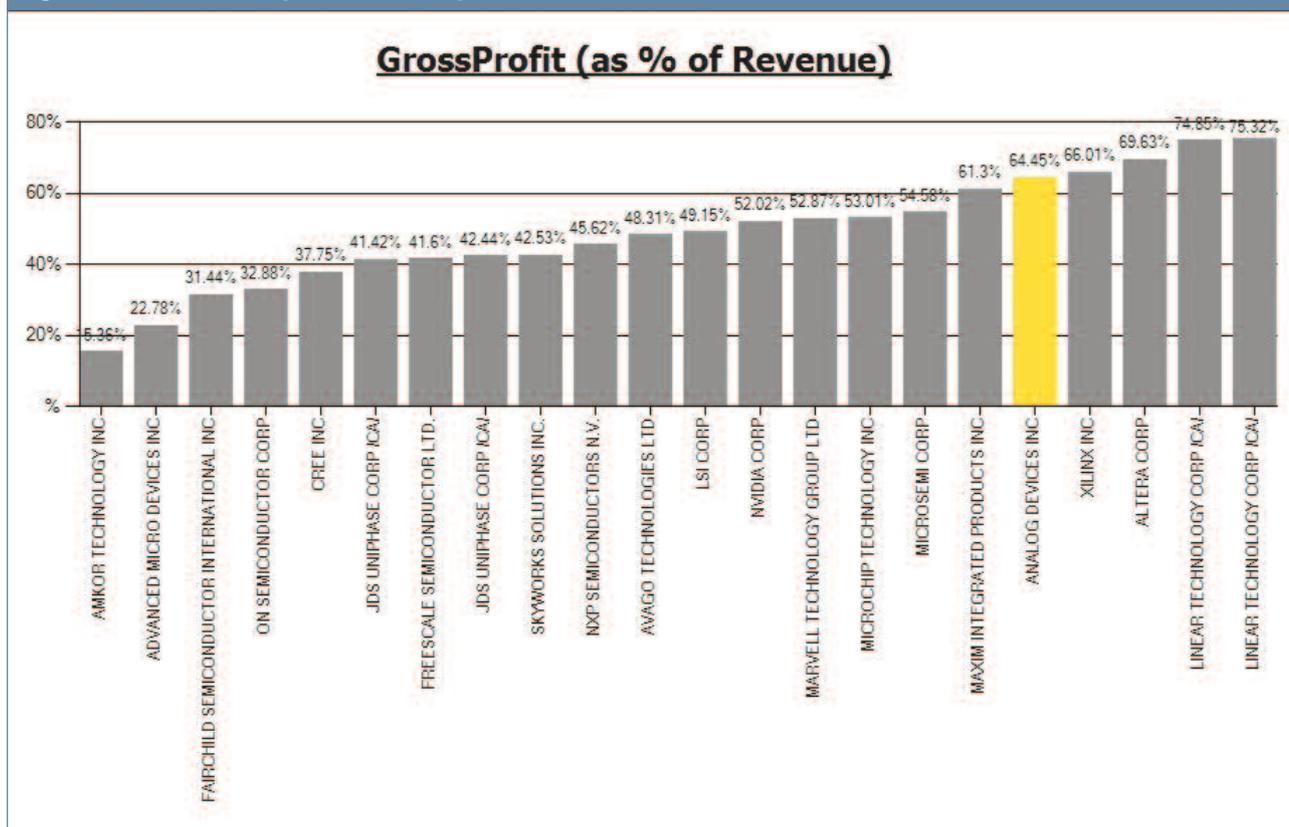
The balance sheet shows a book value close to top quartile, but ADI ranks low in cash. The lower-than-average cash could be offset by a high level of short-term investments, so the firm isn't likely to face a cash crunch. Also, inventory is low compared to the group, so any potential markdown wouldn't cause much distress.

Other ratios indicate good standing. On the other hand, asset turnover is relatively low, which could signal ADI isn't operating as efficiently as some peers. That being said, with below average inventory and high liquidity, this might not be an issue.

As we examine gross profit further, we see that the company compares nicely to the group (see Figure 3). This may be indicative of skilled manufacturing, premium pricing, and/or bargaining power with suppliers.

While it's a rather simple analysis, this examination shows how quickly mean-

Figure 3: Peer Group Profit Comparison



ingful conclusions can be made. Clearly ADI is extremely liquid and quite profitable, and a few key insights and recommendations emerge:

FP&A. ADI appears to be in good standing in comparison to its peers. The fact that ADI is in the 88th percentile for short-term investments—a 54% increase from last year—indicates it should reconsider where it invests. The goodwill shows that it bought other companies—perhaps management should look for other opportunities.

Mergers and Acquisitions. ADI might be a good company to acquire if

the price is right. It has low debt, and, in theory, it could be leveraged further.

Risk Analysis. ADI doesn't have any apparent liquidity risks. Looking at its Days in Inventory ratio, inventory is held for longer than the industry average. While this could be worth investigating, it doesn't appear to be a major concern in terms of the company's liquidity.

Valuable Data at Your Fingertips

Benchmarking is clearly at a pivotal point. With new streams of publicly

available and easily accessible data, there's no reason financial leaders shouldn't take advantage of this data to make smarter and more informed decisions. **SF**

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