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### COVID-19 and The Effects on World's Most Admired Companies

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**COVID-19 and The Effects on World's Most Admired Companies**

Justin Mooney

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## **Introduction**

COVID-19 began shocking the world in October of 2019. What seemed to be a small concern to the U.S became more dangerous towards the beginning of 2020. The virus's infection spread in the U.S exponentially, and the U.S responded to this growth in March of 2020 by shutting down the economy. Naturally, the U.S market plummeted because consumer spending and economic activity stopped. Business models of companies in the U.S market were drastically affected by the shutdown, causing professional accounting services to adjust in parallel with their clients.

Government entities responded with ways to plan for public company's audit and tax services. The Public Company Accounting Oversight Board (PCAOB) as well as Securities and Exchange Commission (SEC) both understood COVID-19 would restrict the ability of credible process for conducting engagements (Hinman 2020). Therefore, making large entities in the U.S take an innovative approach in receiving accounting services, which they need to maintain credibility in their financial reporting to investors. More importantly, corporations that make up most worldwide products or services need to take special care in reporting the changes COVID-19 have caused to their company. A good representation of these organizations is the list of Fortunes world's most admired companies. These admired firms are considered "superstars" and global corporate leaders.

In this paper, I discuss how an organization is selected for this list and prior literature which examines the importance of these institutions. After the background is complete, I examine how these companies' financial performance has been affected by the pandemic. By using fundamental financial ratios to look deeper into the company's financial reporting, this paper finds some key changes to firms throughout this pandemic.

I analyze these corporations by using financial statement account balances, available on COMPUSTAT from the Wharton Research Data Service (WRDS). Using the DuPont framework, I compute four different ratios return on equity, profit margin, asset turnover, and financial leverage. These ratios are then graphically represented. Specific companies are then analyzed further using footnote disclosure information from 10-Ks for 2020.

I find that many companies ratios whether small or large had a unusual change in 2020. Specifically, corporations involved in or that complemented the travel and entertainment industries were negatively impacted. On the other hand, corporations that had online platforms for delivery services or that were involved in software changed positively. The implications of these findings are that people shopped online more and traveled less. Obviously, with a stay-at-home advisory for a majority of U.S citizens this makes sense. However, the implications also shows that many organizations are complements of the travel industry and rely on them for demand. Finally, that organizations should focus on approaches to develop tools for purchasing their goods or services, through online platforms that are easily accessible to consumers.

## **Background and Literature Review**

### ***How to Become an Admired Company***

Admired companies are the world's most prestigious firms. Examples of brands that make this list are Microsoft, Starbucks, and Apple (Fortune 2020). Typically, admired corporations are well known to all consumers and most people have used their product or service. Every year Fortune publishes a list of businesses that have separated themselves from the rest. The publisher ranks all the organizations from one to fifty. These institutions in the

rankings are considered the most admired corporations. To compile this group, Fortune works with Korn Ferry for analysis of companies to see if they make the list.

Korn Ferry is a management consulting firm based in Los Angeles, CA. Fortune and the consulting firm work together to have a specific criterion for organizations in the U.S and outside the U.S. One of the first ones is the profitability of the company. According to Korn Ferry, an institution must have approximately 10 billion dollars in annual revenue and must be leaders in its industry (Korn Ferry 2020). Then most, if not all the admired organizations, are Fortune 500 companies. Korn Ferry and Fortune subject these large corporations to even more specific standards. There nine standards are listed below (Korn Ferry 2020):

1. Ability to attract and retain talented people
2. Quality of management
3. Social responsibility to the community and the environment
4. Innovativeness
5. Quality of products or services
6. The wise use of corporate assets
7. Financial soundness
8. Long-term investment value
9. Effectiveness in doing business globally

These attributes are imperative to be a successful firm. To rate each firm effectively, Korn Ferry surveys most of the top ten executives and seven directors for each company. Along with industry analysts, they rate each company on each attribute from zero to ten. Then, a simple metric of using the average from all the surveys is used to determine which firms are following these standards the best (Korn Ferry 2020). This year, Apple swept the competition with an overall score of 8.19 (Fortune 2020).

## *Literature Review on Most Admired Companies*

Because of their global influence, prior literature has examined the financial value, corporate social responsibility, and the reputation of these Most Admired Companies. Below is a discussion in such prior research and why these institutions are important.

Corporate Social Responsibility (CSR hereafter) in the past decades has become a key determinant of a company's ability to retain stakeholder relations. One of the standards that are tested in Fortunes Most Admired Companies is "Social responsibility to the community and the environment" (Korn Ferry 2020). Barchiesi and La Bella (2014) research these Admired companies to see how aligned their organizational values are with CSR. The authors explain "Even if social responsibility is never an absolute orientation for the companies in our sample (the frequency of the value "1" is nil), it is the predominant one" (Barchiesi and La Bella 2014, p163). These organizations prioritize consumer-first practices that create relations that are essential with their customers. With changing demographics in the world, many people want to either work for or buy from socially conscious companies. Another excerpt from this article supports this by stating, "nowadays people, especially those belonging to advanced economies, are becoming more and more socially responsible, and hence becoming generally more sensitive to social and environmental issues" (Barchiesi and La Bella 2014, p165). Therefore, this business model gives these admired firms a niche in attracting customers and talents to work for them.

The financial assets and profitability speak for themselves. Fortune magazine does not allow them to even make the list unless they have at least 10 billion dollars in revenue (Korn Ferry 2020). From the nine standards above, most of them reference the financial performance of

these companies. These firms are competent in handling their financial resources and can be sound investment options. Antunovich and Laster (2000) support these standards by stating, “The return premium on most-admired firms, adjusted for size and book-to-market effects, is stable over the sample period, which suggests that they are not merely an artifact of the time period examined” (Antunovich and Laster 2000, p25). This is relevant to the importance of these admired companies. A company that is considered a stable return on investment will be influential to plenty of investors. Since the start of the COVID-19 pandemic, these companies have experienced volatility with their stocks and their company’s resources.

### ***Research Questions***

The COVID-19 pandemic has impacted companies in many forms such as operational, financial, and organizational structure. Specifically, this paper will research the financial impact of COVID-19 on the most admired companies. To accomplish this overarching question, specific financial ratios are analyzed. Ratios are good indicators of economic performance and allow for a more in-depth analysis into what companies’ financial statements mean.

This research has conducted the ratio analysis by the DuPont framework for all the most admired firms. In addition, since the most admired corporations can be a part of different sectors of the economy, the ratio analysis will be analyzed for each industry. My expectations are that ratios like profit margin or return on equity will be lower than prior years, due to most firms receiving lower demand in the second quarter of 2020. However, some admired organizations might have benefited in profitability because of people being home. These could be companies that have streaming services, provide applications for smartphones, and have online stores.

Another part of this research involves analyzing which industries have stayed competitive and which industries have received the most negative impact because of the pandemic. The obvious answers to this question are that software or online retail services have prospered, and travel/hospitality has suffered the most. I agree with that, but I also believe that credit card corporations have not been performing as expected. The reason for this prediction is I believe people are spending less on credit when they are out of work or they are saving more during the pandemic. Another service that I am investigating is delivery. UPS and FedEx both should have increased demand with the switch to ecommerce and people staying home to get products.

### **Data and Methodology**

To retrieve financial information about the fifty Most admired companies, I use COMPUSTAT from the Wharton Research Data Service (WRDS). COMPUSTAT provides financial statement information of publicly traded corporations quarterly and annually, which it retrieves from the SEC EDGAR. COMPUSTAT provides the data necessary to conduct the Dupont framework analysis. The Dupont analysis is conducted from 01/01/2018-02/28/2021. This will ensure the possibility of receiving a decent amount of data before COVID-19 and during the pandemic shutdown.

I use Excel to compute financial ratios. Specifically, I calculate profit margin, financial leverage (equity multiplier), asset turnover, and return on equity (ROE). Exhibit 1 is a breakdown of the calculations. Profit margin is a measure of how much profit a company makes for each dollar sale. Financial leverage or equity multiplier is a measure of how much a firm's assets are financed by its shareholders, as opposed to creditors. Capital structure affects the leverage as higher debt increases the measure, while higher equity will lower it. Therefore, a higher financial leverage creates a direct relationship to ROE by raising it as well. Asset turnover



shows how effectively a company is using its' assets to generate sales. Finally, ROE is a measure of how a company is using the money received by investors to be more profitable.

These four measures are then used to create data visualization, by using the Pivot Table tool. I utilize this function to create a graphical representation of how companies have been performing. For each graph, I automatically change the Pivot Table to show different companies' ratios for the past three years. If a ratio experiences a significant change in a year for a given company, I then access the respective 10-K, including the footnote disclosure, to understand the underlying reasons for the change, such as the impact of COVID-19.

Lastly, I calculate Pearson correlations to determine if the disclosure of COVID-19 in 10-Ks are associated with the ROE, return on asset (ROA), and profit margin of a company. It is likely that companies are more likely to report about the impact of COVID-19 if their profitability ratios are not high.

### **Results: Analyses of Worlds Most Admired Companies**

The results support the claim that there was a change in Fortune's most admired company's financial ratios, due to the impact of the pandemic in 2020. As mentioned before in the research questions some of them had financial hardships, but some of them proved that they could remain profitable or even have increased profitability during a pandemic. To separate this list by section these corporations must belong to specific industries. Fortune's list provides me with the title of the industries as well as the admired companies involved in each industry. Below will be a discussion of changes in the financial statements of such companies and industries.

## **Airlines:**

The industry with clear negative effects from COVID-19 was the airlines. Travel demand plummeted as people switched to online business meetings and less people vacationed to prevent the spread of the pandemic. To support this claim, Exhibit 2 is the graphical representation of the admired airlines industry averages using the DuPont framework. In the most admired list, Delta and Southwest are the only airlines. In the two graphs related to sales, (ROE and Profit Margin) the industry takes a dip during the time of COVID-19 shutdown. In terms of financial leverage, the huge trend upwards means that companies are taking more debt to increase their liquidity. Below I will discuss the impact of COVID on the financial ratios for each of the two companies.

## **Southwest Airlines:**

The airline Southwest experienced volatility in its revenues for the year 2020. The management discussion and analysis in 10-K states “In late February 2020, the Company began to see a negative impact from the COVID-19 pandemic, which quickly accelerated during the first quarter and continued throughout the remainder of the year. As a consequence, the Company experienced its first annual net loss in 48 years” (Southwest 2021). In Exhibit 2 there is a clear drop in Southwest’s profit margin, asset turnover, and ROE from Q1-Q2 of 2020. The lowest point of profit margin being approximately -91%. Meaning that for every dollar the company makes it loses 91 cents on it. The organization experienced extreme pressure as they still had plenty of overhead costs to address. One example of an expense is salaries/payroll expense. Southwest managed this issue by taking out a 3.4-billion-dollar loan through the payroll support program to help offset this expense (Southwest 2021).

Another account balance that was affected is liabilities. Exhibit 2 supports this with the increase in financial leverage. Higher leverage typically means that an organization is receiving more money from creditors rather than its shareholders. Note 7 (Financing Activities) of Southwest's 10-K discusses several borrowings made to increase liquidity with many of them are secured by their Boeing 737 aircraft (Southwest 2021). Risks associated with increase in financial leverage could be potential bankruptcy. This of course is only if Southwest is not able to bounce-back after its losses.

Southwest has seen improvements since June. The improvement is partially due to revenue trends increasing. Southwest even states, "in September and \$16 million per day in third quarter 2020, a sequential improvement from average core cash burn of approximately \$23 million per day in second quarter 2020, primarily due to improving revenue trends. Our average core cash burn in October is currently estimated to be approximately \$12 million per day, and fourth quarter 2020 is currently estimated to be approximately \$11 million per day" (Southwest 2021). Southwest is receiving growth each quarter as their losses slow-down with COVID-19 restrictions lifting.

### **Delta Airlines:**

Delta Airlines another prestigious institution and reliable airline experienced a drastic change. Exhibit 2 shows outliers for each quarter of 2020. ROE dropped as low as -89% and Profit margin dropped to -381%. Those numbers alone can persuade investors that they're in financial distress. Naturally, to increase liquidity, they issued and borrowed debt. They were able to raise about 25.9 billion dollars between issuing and borrowing. Within this was a 1.6-billion-dollar payroll support program promissory note (Delta 2021). Exhibit 2 supports this with financial leverage more than doubling to about 31. The company has been improving primarily

due to reduction in cash burn. Similarly to Southwest, Delta was losing money daily. At its peak, the company was losing 100million dollars daily and has reduced this number every quarter. Currently, the company has reduced it to 12million dollars daily (Delta 2021).

Another issue that Delta experienced is reorganization due to COVID-19. The Dupont analysis shows a decline in profitability most likely due to lower demand, but there has been also an increase in certain expenses because of COVID-19. In note 2, (Impact of COVID-19) Delta discussed conducting a restructuring total of around 8.2 billion dollars. Within that number is 4.4 billion of it going to impairment of leased fleet assets. More specifically, Delta's capacity reductions plan because of COVID-19 was a good indicator of potential impairments of the fleet. Leased fleet assets were considered impaired because of management decisions to retire them because they were not being used. Leading to the company to test for recoverability and they found that amounts were not recoverable for these assets.

Another part of restructuring was a change to the employee benefits program. These benefits programs restructuring is related expense management during COVID-19. Delta offered to 18,000 employees special termination benefits for leaving the company. Along with that includes separation payments and healthcare benefits. Lastly, is a restructuring charge related to the bankruptcy of LATAM airlines which was a joint venture of Delta. The bankruptcy was voluntary reorganization because of the COVID-19 climate. Although this can be a concern, in note 2 they have addressed an expense management plan. This plan includes strategies such as voluntary separation of employees, offering early retirement, and salary reductions for the CEO and officers. It seems that the company's biggest concern is the expense of salaries/payroll for the remainder of the COVID-19 pandemic. The company has already taken 5.6 billion for the payroll support program through CARES ACT and lowered its salaries and other costs expense by 28%

percent in 2020 (Delta 2021). Overall, Delta, should slowly comeback to a norm a COVID-19 restrictions lower.

### **Retail/Internet Industry:**

The retail/internet consists of two large corporations Alphabet and Amazon. Revenues from these firms come from services that do not need to be face to face, so demand remained relatively the same or increased during the shutdown of the U.S. Exhibit 3 shows an increase in profit margin showing a positive return for each dollar that they made, in stark contrast to the airline industry. The asset turnover shows mild seasonality as it is consistent for each quarter and each year. Financial leverage decreased showing that shareholders financed many of their assets and not creditors. This industry is different from the others as it prioritizes ecommerce to create sales. Also, consumers can purchase from these corporations as long as they have access to a smart-phone or computer. All these factors explain why the ROE has a positive and upward trend for this industry in 2020.

### **Alphabet:**

Alphabet is one of the most valuable companies in the world. It is the parent company of corporations such as Google and YouTube. These corporations make most of their profit from supplying online tools for businesses and people. Therefore, they should see an accelerated increase in profitability and growth for 2020. Management of Alphabet supports this by claiming “The continuing shift from an offline to the online world has contributed to the growth of our business since inception, contributing to revenue growth, and we expect that this online shift will continue to benefit our business” (Alphabet 2021). Also, from Exhibit 3 the graph shows a steady increase towards the latter half of the fiscal year.

Interestingly COVID-19 is not mentioned in the 10-K as often as other firms. Possibly due to Alphabet having grown during the pandemic as shown again in Exhibit 3. What has driven this growth in revenue for 2020 (13%) is due to increase in the Google Services segment (16.8 billion dollars increase) of their business operations. Google Services provides tools such as Gmail, Google Drive, and YouTube. All these tools are online resources that can be used as forms of communication, tools for schoolwork, and social media. Another segment is their Google Cloud operation. Revenue for this segment increased by 46% or 4.1 billion dollars. Google Cloud provides online storage of files or photos for people. Making it easy for people to share photos or important work files. The only real mention of its concerns is under General Risks. Alphabet mentions the economic downturn lowering their advertising revenue because of advertisers spending less. Along with that, the organization wrote about a significant increase in the allowance for credit losses because of COVID-19. Alphabet is expecting a higher unrecoverable amount because of certain business endeavors not paying back. In 2019, they estimated 275 million and by the end of 2020, it jumped to 789 million in credit losses. (Alphabet 2021).

### **Amazon:**

One of the most recognizable brands in the U.S is Amazon. It is not hard to imagine that the brand was successful during the quarantine. Its online retail store is easy to use, and delivery is efficient for customers. Yet again, the firm has limited mentions of COVID-19 in its financial report. From Exhibit 3, there is a slight dip in their ROE in March of 2020 possibly due to lower profit margin and asset turnover, but this could be seasonal due to the holidays. The aspect of the graph that is most interesting is from Q3-Q4 of 2020. The ratios ROE, profit margin, and asset turnover increase during this period. Amazon even mentions why by saying, “Higher net sales in

the North America and International segments reflect increased demand, particularly as people are staying at home, including for household staples and other essential and home products, partially offset by fulfillment network capacity and supply chain constraints” (Amazon 2021). The increased revenue created a higher cost of sales as well. With the heavy demand, the cost of sales grew by 41% in 2020, whereas in 2019 it only increased by 19%. Amazon usually includes costs associated with the delivery and sorting in the cost of sales. However, for 2020 Amazon included the additional costs associated with COVID-19 prevention such as masks, soap, and gloves. This totaled to be about 11.5 billion dollars for the company (Amazon 2021).

### **Delivery Industry:**

Another industry to look at is the delivery service. With corporations in the retail industry improving their online stores to support user demand for household staples or other goods. Delivery services should receive growth in their capacity and the volume of deliveries. Exhibit 4 has graphical representations of the averages for the two companies FedEx and United Parcel Services (UPS). The averages show an increase in asset turnover, profit margin, and ROE. These three variables show and increase that number of sales for these corporations. As mentioned, these two organizations are a part of the delivery service, but oddly their DuPont analysis outcomes differ. These two companies’ financial performance should be affected by seasonality, but the expectation is that most of it had to do with COVID-19.

### **United Parcel Service:**

Exhibit 4 shows United Parcel Services (UPS) received increase in overall sales for 2020 as profit margin increases. An industry that complements e-commerce organizations will be more profitable during a quarantine. As consumer behavior changed during the lockdown

delivery of goods became more of the norm for people. UPS management supports this with their discussion of highlights for 2020. UPS mentions revenue increasing in all segments, average daily package volume increasing and lastly operating expense increasing because of demand. The volume increase was primarily driven by the increase in business-to-consumer delivery (64% of all deliveries were business-consumer). A key partner of UPS is the company Amazon (Amazon makes up 13.3% of all UPS's revenue). As previously mentioned, Amazon had a successful year in the pandemic. Therefore, UPS being a complement for the retail/internet did reap some of the rewards as well for the first 3 quarters. Some statistics to back this claim is volume increasing by 33%, supply chain and freight segment revenue increasing 1.8 billion, and Other operational expenses increased 385 million (other operational cost includes vehicle rentals and COVID-19 safety supplies) (United Parcel Services, 2021). Another way to show this is the graphical representations from Exhibit 4. Mild seasonality can be shown in the company's profit margin and ROE. A steady increase in asset turnover represents that the company has managed its assets efficiently to generate more revenue. However, in Q4 there is a drop. This downward trend is primarily driven by a negative net income. From what was gathered it seems that the corporations pension expense increased a lot this year pushing it to a negative income for Q4. However overall UPS seems to be a stable corporation during the pandemic.

### **FedEx:**

FedEx graphs show a different story for 2020. Their ROE and profit margins are a lot smaller for the year 2020 as shown in Exhibit 4. Along, with this asset turnover drops showing the use of the organization's assets have dropped. The organization 10-K explains "Business-to-business demand across all of our businesses was negatively impacted by the COVID-19 pandemic in 2020. We began to experience business impacts from the COVID-19 pandemic as



early as January 2020 when transpacific traffic was affected by the shutdowns in China and the curtailment of commercial air flights” (FedEx, 2020). The company’s international market is enormous as it delivers to over 220 countries worldwide. A shutdown of international delivery would a put a huge strain on the corporation. An emphasis on the business-to-business model is going to be negatively affected if business activity is shutdown. This can be shown in the volatility among their different segments of operations. For example, FedEx express lost 54% in operating income from the previous year. With changes to their business segments, FedEx had a 1% decrease in their revenue for 2020 (FedEx, 2020).

An interesting aspect of the financials is their discussion of income taxes. Under the CARES act, FedEx can record a 5-year carryback for losses from 2019 through 2021. With the carryback, FedEx recorded an income tax benefit of 71 million dollars. Along with this, FedEx applied for a change in accounting method for depreciation to the internal revenue service (IRS). In Q4 they applied and for Q2 of 2021 for the fiscal year they received approval. This will give them an income tax benefit of 130 million dollars for 2021 (FedEx, 2020).

### **Hospitality Industry:**

The hospitality industry is similar to the airline industry because it is dependent on people traveling. If no one is vacationing or having business meetings, then people will not need a place to stay. As expected, the trend in financials for hospitality was negative. The only most admired hospitality corporation is Marriott.

### **Marriott:**

Exhibit 5 is telling that the company experienced difficulties during the shutdown. The company’s profit margins were negative, and their financial leverage was negative. These two

factors being negative created a skewed ROE. ROE is not a positive number it should be negative. Included, in their DuPont framework is an abnormally lower than usual asset turnover. Marriott and other hotels use an important performance metric called RevPAR. RevPAR is a measurement of how much revenue is received per room. In 2020, Marriott's RevPAR dropped 90% from the previous year. A 90% drop worldwide means Marriott made on average 10% of what they were previously making per room in 2020. A drop of 90% percent explains the calculated asset turnover and profit margin (Marriot 2021). Also, it explains the financial leverage. Upon reading the financial statements, negative financial leverage is driven by a negative shareholders equity. Shareholder's equity is measurement of value to a company. Negative equity is driven by heavy losses over the years. This is apparent with the corporation's negative net income and shareholder equity being negative for Q1-Q2 (Marriot 2020).

In response to this turmoil, Marriott has conducted restructuring and reimbursement charges. In Note 3, "Restructuring Charges", Marriott discusses recording 366 million dollars in restructuring. Within this is 56 million towards Restructuring and merger-related charges. These restructuring charges relate to above-property, property-level, and owned and leased properties employee termination benefits. Meaning that Marriott has furloughed a significant number of employees. The remaining 310 million is reimbursement expenses. Reimbursement charges are when an employee pays out of pocket towards a business expense. In the case of Marriott, they are considered the employee and their franchises are the employers. Therefore, Marriott expects payback for the 310 million dollars. Even though reimbursement charges have decreased by almost 49% from 2019 (\$16,439 2019 to \$8435 2020). The corporation does not make enough revenue to cover this expense. In 2020, reimbursement expense took up about 80% of revenue. Leading towards a smaller operating income than the previous year (Marriot 2021).

A lower operating income can lead to a smaller net income for the year. To help offset some of the costs after operating, Marriott applied for a 164-million-dollar tax credit refund through the CARES Act. They received about 119 million back and gave 94 million of it towards other hotels that they help manage. They will receive the remainder of this tax credit refund in 2021 (Marriot 2021). Hopefully, soon demand and customers will return bringing Marriott back to the norm of its operations.

### **Credit Cards:**

The credit card industry shows clear changes during the events of 2020. The industry average in Exhibit 6 reveals a downward trend as soon as the worldwide shutdown occurred. What is expected when people are not working or stuck at home is that they would purchase more on credit. Also, with a higher unemployment rate due to furloughs from COVID-19 there would be more purchases on credit. However, from the data, the sales on credit seem to decrease. Asset turnover and profit margin suggest a decline in sales for the most admired organizations Mastercard, Visa, and American Express.

### **Mastercard:**

Mastercard's performance is depicted in Exhibit 6. ROE trends downward from December of 2019 to June of 2020. The drop in ROE is a result of a lower asset turnover. Representing a lower number of sales than previous years. Mastercard supports this by stating, "Net revenue decreased 8% on a currency-neutral basis due to COVID-19 impacts" (Mastercard 2021). Along with this decrease in revenue, net income was 21% lower than in 2019. All these statistics explain a lower asset turnover for each quarter. Another variable that influenced this is gross-dollar-volume (GDV). This key metric is used to represent the aggregate amount of

purchases made and cash disbursement through Mastercard. In 2020, GDV was 29% less than in 2019. What this means is that people were spending less money on Mastercard's cards and saving more (Mastercard 2021).

### **VISA:**

VISA Inc. remained stable throughout the pandemic with a minor drop in Q2 as shown in exhibit 6. From looking through VISA's 10-K, the corporation is using the COVID-19 pandemic as an opportunity for growth. VISA mentions that e-commerce only makes about 14% of the retail world. Therefore, VISA sees this as a market they want to improve. The corporation wants to focus more on eCommerce rather than old checks and cash-based systems. VISA states, "We are accelerating efforts to move approximately \$18 trillion in consumer spending still done in cash and check to cards and digital credentials on the VISA network" (VISA 2021). A new system that VISA introduced ties in with this goal is Click to Pay. Click to pay offers a contactless payment option for consumers. The new software works perfectly with the COVID-19 pandemic's strict contact guidelines because it encourages consumers to still go to merchants and use their VISA card (Visa 2021).

### **American Express:**

American Express Dupont analysis showed the most inconsistencies for a credit card company. Exhibit 6 is a clear indicator that for the first two quarters of 2020 American Express had lower than normal returns. The company's profits rely on corporate activity for its billing business. Like hotels and airlines, American Express earns revenue when employees are traveling, or people are vacationing. The institution's 10-Ks discusses revenues dropping because of COVID-19. American Express credit card users' spending activity declined significantly. For

example, Travel and entertainment billings decreased 61%, U.S billed business declining by 16%, and non-U. S decreasing by 23% (American Express 2021). These statistics explain the lower ROE than usual and lower profit margins.

In response to the COVID-19 climate, American Express took the initiative to help consumers with their bills. The organization started the Customer Pandemic Relief Program (CPR). Loans that meet the specific criteria for this program can receive deferral payment or waivers of certain fees/interest. Also, the corporation took part in the payment protection program loans (PPP) for small businesses. Despite support to American Express users. In 2020 The companies reserve for credit losses increased by 124%. This significant increase is driven by their outlook for the macroeconomic climate of COVID-19 and the expectation of customers defaulting on loans. Another increase that was seen was the amount of troubled debt restructuring (TDR). In 2019, only 87,000 accounts had restructured their debt. Whereas in 2020, that number has jumped to 328,000. This explains that a significant amount of people needs to change their loan agreements due to issues with the contract. Also, it explains the large increase in their reserves for credit losses. Overall, the effect of this debt increase cannot be fully seen until more time has passed (American Express 2021).

### **Entertainment:**

The entertainment industry contains two large corporations Disney and Netflix. The average for exhibit 7 shows a poor ROE for the second quarter of 2020. However, this average is primarily skewed by Disney's data. Disney had a tough year with its travel spots being closed. What can be expected by these two large corporations is their streaming services received higher returns in 2020 with people watching TV at home. Below there will be a discussion of these structurally different entertainment organizations.

**Netflix:**

Netflix is one of the most well-known streaming services worldwide. The service they offer is a small monthly fee for unlimited TV viewing of shows and movies. Naturally, with people being at home screen-time most likely would increase. Compared to Disney, Netflix shows strong returns and no drastic change to their ROE in Exhibit 7. If anything, Netflix received more demand than in previous years. Netflix supports this with a 25% increase in their streaming revenue for the year and their operating income increasing by 76%. Also, an increase in the number of paid members at the end of the period increased by 22%. In Q4 the company experienced a decline in its profit margin leading to a lower ROE. In the company's 10-K they state "The COVID-19 pandemic also led to an increase in our net paid membership additions relative to our quarterly forecast and historic trends in the first half of 2020, and slower net paid membership additions in the second half of 2020 relative to historic trends" (Netflix 2021). They still performed well in Q4, but it was not as strong as in the first part of 2020 when people stayed home more. Overall Netflix performed exceptionally well when people had to stay at home.

**Disney:**

Disney has experienced lower returns than usual for the organization. Unlike Netflix, Disney is providing a wide variety of entertainment services. Examples of this include Disney cruises and Disney land. This can explain Q2 in Exhibit 7. The company's profit margin was negatively representing that the corporation was losing money. Disney states, "In total, we estimate the net adverse impact of COVID-19 on our full-year segment operating income across all of our businesses was approximately \$7.4 billion" (Walt Disney 2020). The reason for this negative was the impacts of COVID-19 on their travel destinations. Disney shut down every single one of their parks for a limited amount of time in the year. By doing this the company lost

a significant amount of revenue from its key segments leading to a net income loss for the year (Walt Disney 2020).

In response to the COVID-19 pandemic the company raised its liquidity by issuing senior notes and received cash from other creditors. By doing this they increased their cash and equivalents by more than 3 times what it was in 2019. This was to help cover expenses that they are concerned with. Also, Disney furloughed over 120,000 employees that worked in parks or on cruises. This was because they couldn't employ them if everything is shutdown. Along with this Disney will permanently terminate 32,000 employees in 2021 as a part of their workforce reduction plan (Walt Disney 2020).

Another development Disney announced is they will be conducting strategic reorganization of their business. In October of 2020, Disney stated that they will be focusing on direct-to-consumer platforms to distribute media and their content. Especially in international markets, they implemented Disney Plus in many different countries. By doing this strategic realignment, Disney can focus more on what consumers want right now. Disney should be able to adapt to the COVID-19 climate of a more online way of connecting with consumers (Walt Disney 2020).

### **Pearson Correlation:**

A Pearson correlation shows the strength of a linear relationship between two variables. The range of significance is from positive one (perfect positive relationship) to negative one (perfect negative relationship). For this paper, I use return on equity, return on assets (ROA), and profit margin. Then I compare them to the number of times the word "COVID-19" is mentioned in a corporations 10-K. The purpose of this is to see if corporations are more likely to discuss

COVID-19 only if it is straining their business activity. The value I received from my Pearson correlation is for ROE is  $-.37$ . A small number like this shows COVID-19 is more likely to be mentioned when ROE is lower. Next, the correlation for ROA increased to  $-.43$ . This shows a stronger relationship for this analysis. Lastly profit margin slightly increased again to  $-.44$ . Overall, these indicate the trend that a company based on these profitability ratios is more likely to report about COVID-19 if they have lower returns for the year. For example, a corporation in hotels and airlines mentions the pandemic well over 100 times in their financials. Whereas a company like Amazon that deals with software mentions it only 24 times. Corporations are more motivated to report about COVID-19 if there was actual change to their corporation during 2020.

### **Conclusion:**

The Dupont analysis conducted on the world's most admired companies gave insight into what happened to corporations during the economic shutdown. It seems that businesses with the lowest returns were concerned more with credit losses, restructuring, and cash reserves. The most common businesses to be hurt by COVID-19 were ones that dealt with face-to-face contact for consumers and ones that relied on business-to-business demand for profits. Also, businesses that were complements to each other were impacted. An example of this was the hospitality and the airlines. Both industries performed the worst during the pandemic. A surprising company that was found to be struggling was American express. However, their reliance on travel and entertainment purchases would make them susceptible to increased volatility in the market.

Most Admired Companies that performed well were ones that had already implemented online services and focused more on business-to-consumer for profits. The Pearson relationship showed small negative relationship between profitability measure and the amount of time COVID-19 was reported. Showing that corporations that experienced the most change reported

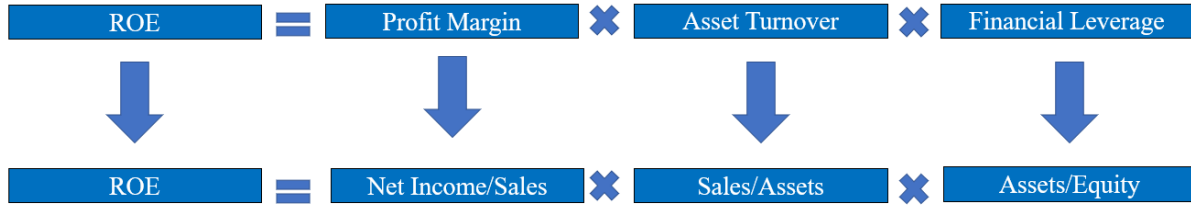


more to investors about what has occurred changed during 2020. The account balances that were affected for higher returning corporations were the cost of sales and operating expenses. These two expenses would be changed due to increased demand for companies and the number of costs that are associated with COVID-19 strict guidelines.

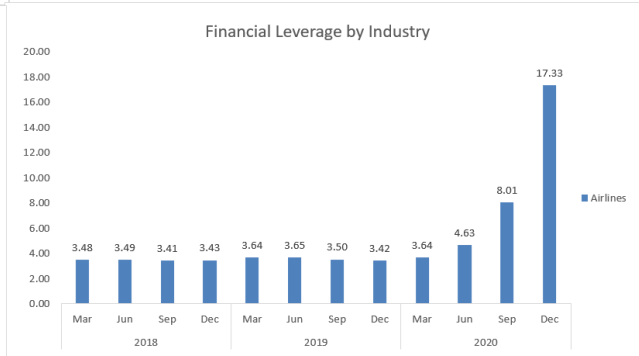
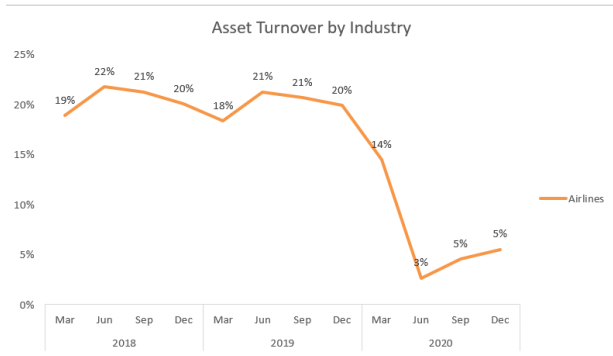
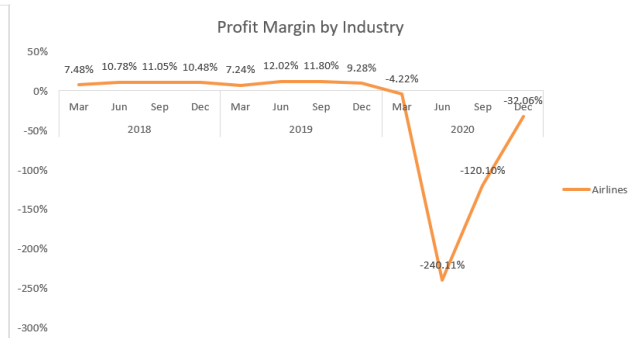
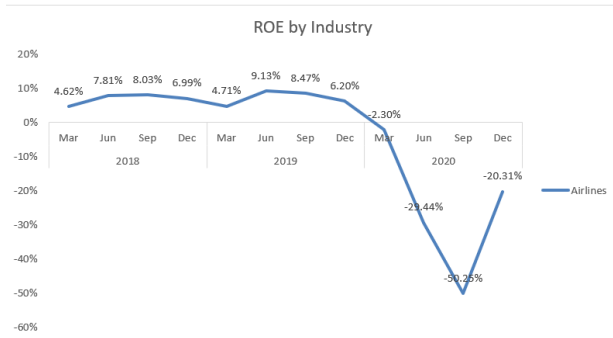
COVID-19 is one of the most unprecedented events for businesses ever. The real interest in this pandemic is the long-term effects on corporations. Since this paper is so current it is hard to determine what in the next couple of years COVID-19 could affect the world's largest organizations. Forecasting this event's long-term effects would be a good extension of what this paper hoped to accomplish. It seems that every month the COVID-19 climate guidelines change for the corporate world, so businesses should be strategically adapting to this standard. With these effects, the best plan for organizations is to adopt new safety and mitigation plans for future uncertain events.

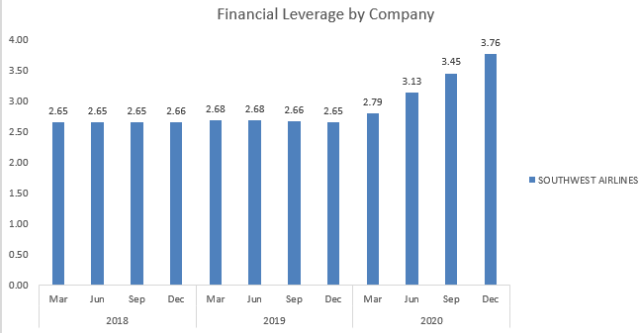
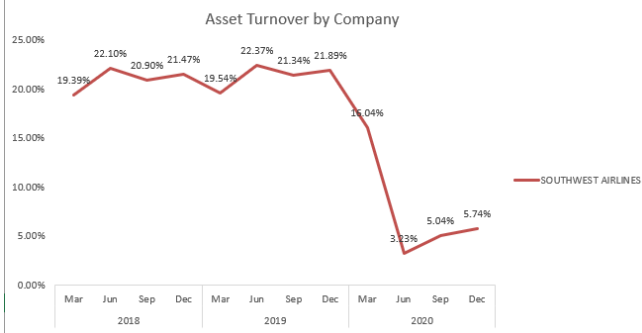
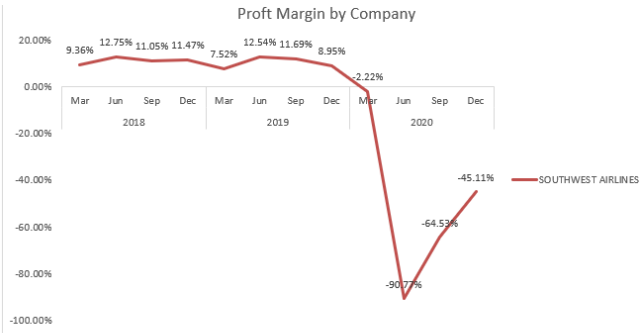
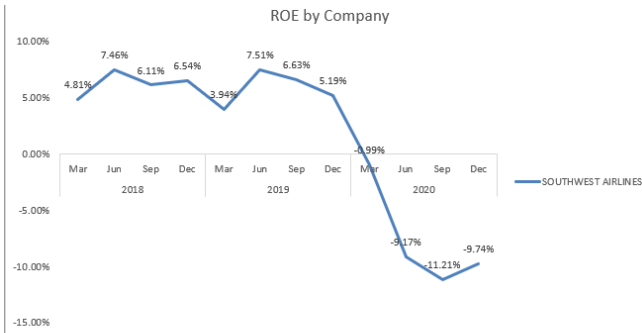
## Exhibits:

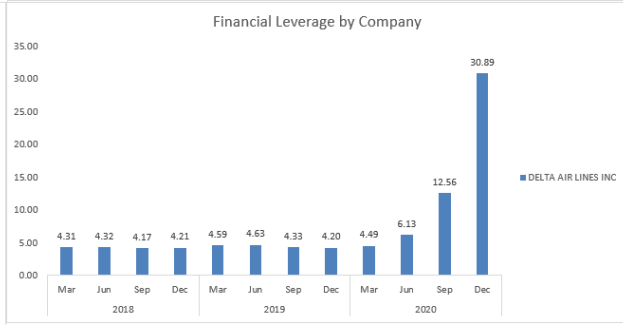
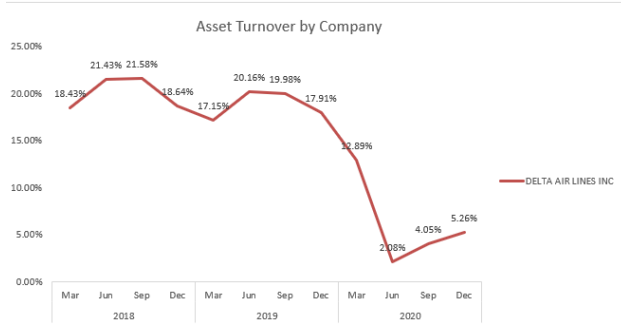
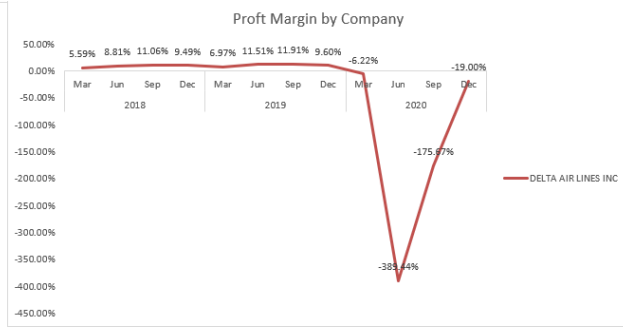
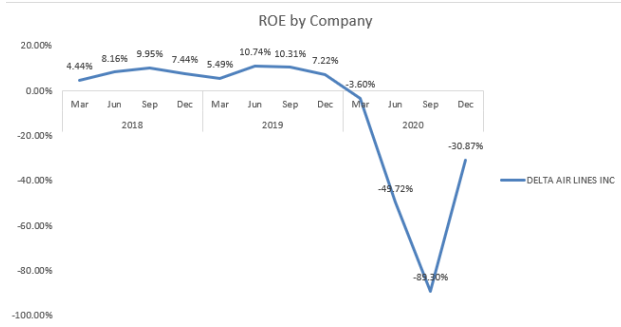
### Exhibit 1: Dupont Framework



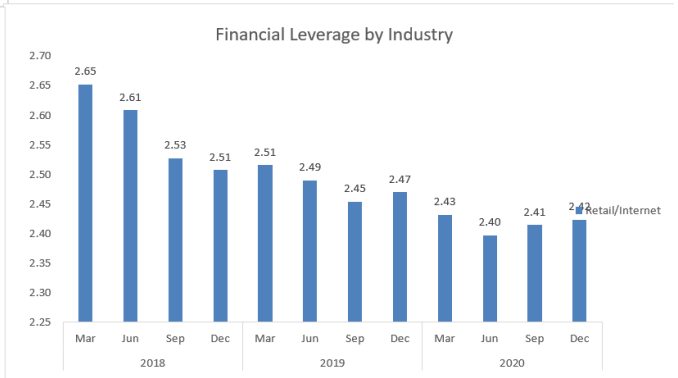
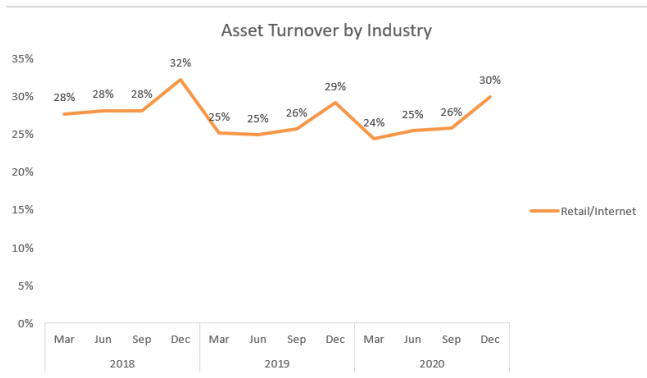
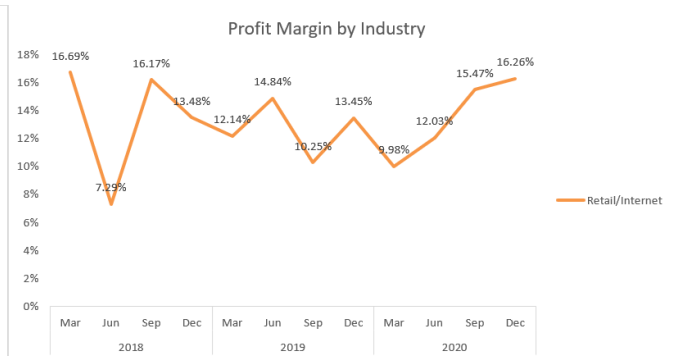
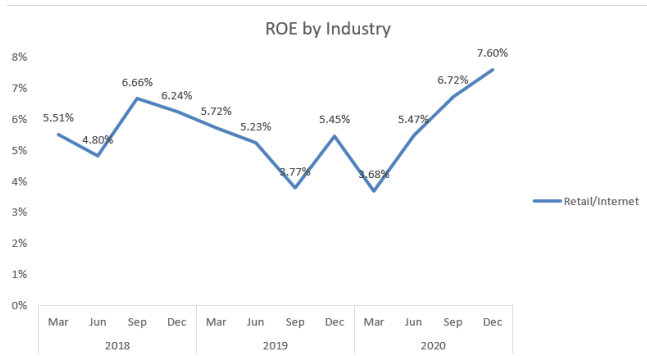
**Exhibit 2: Financial Ratios for the Airline Industry and Individual Corporations.  
 Represented in the Most Admired Companies List.**

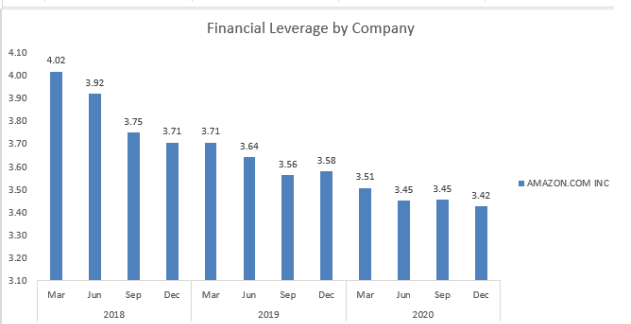
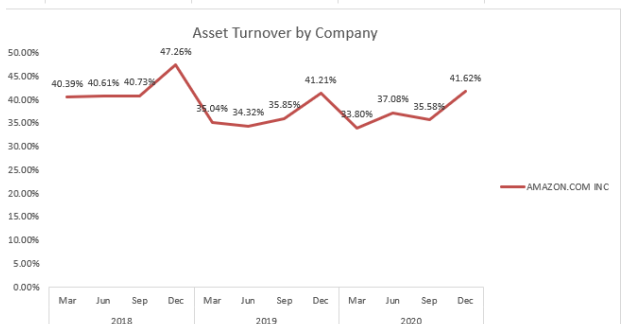
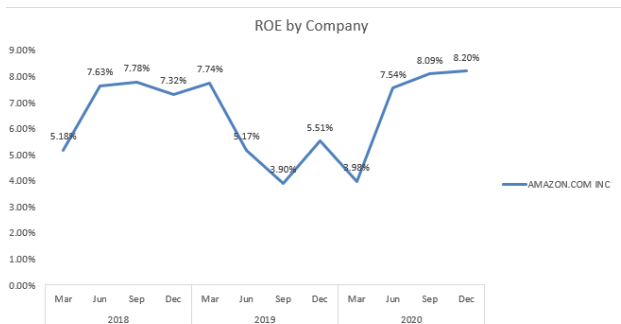
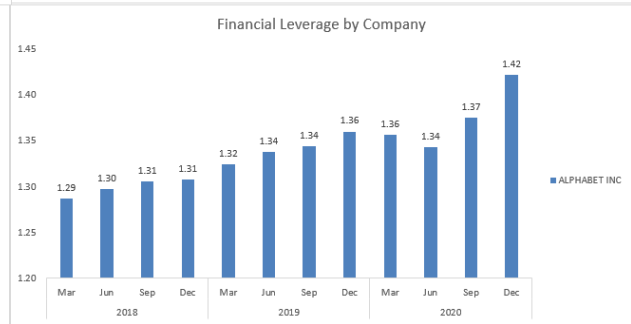
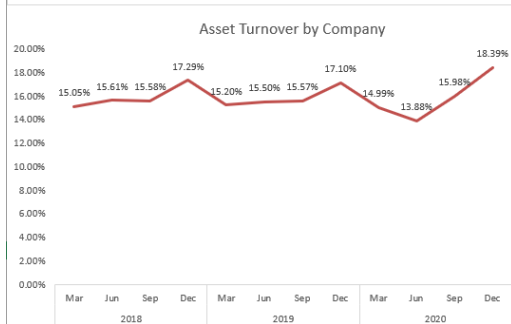
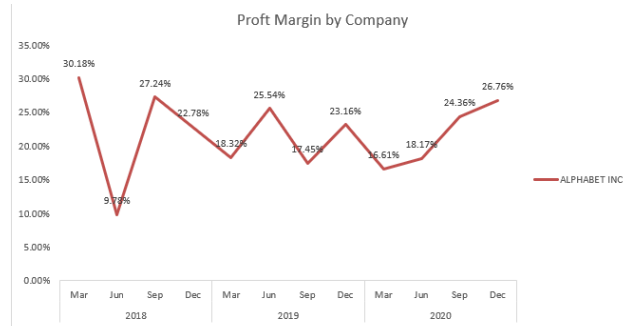
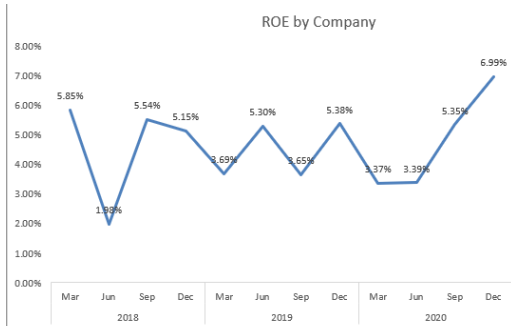




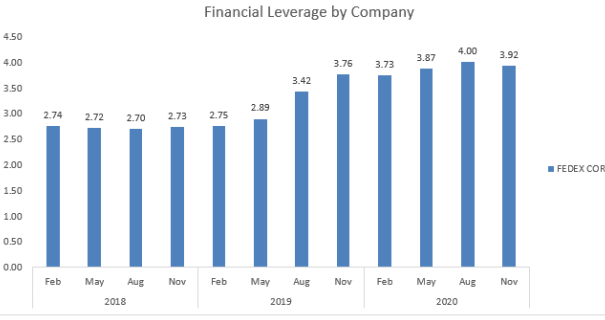
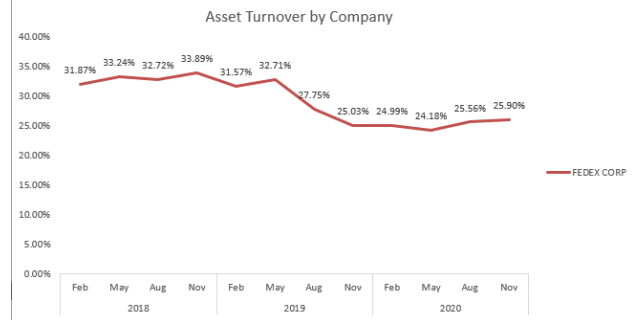
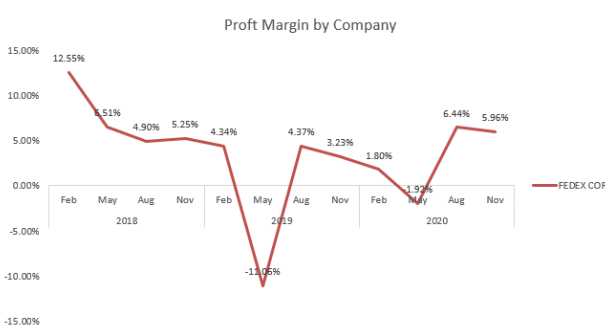
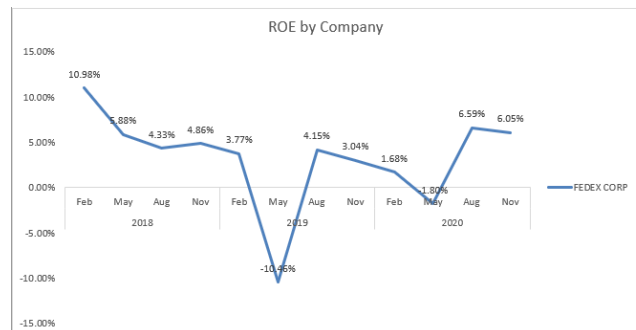
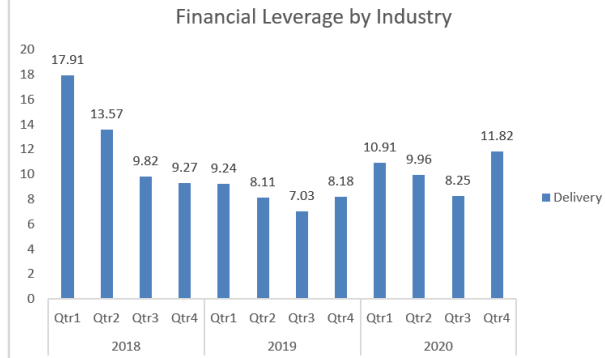
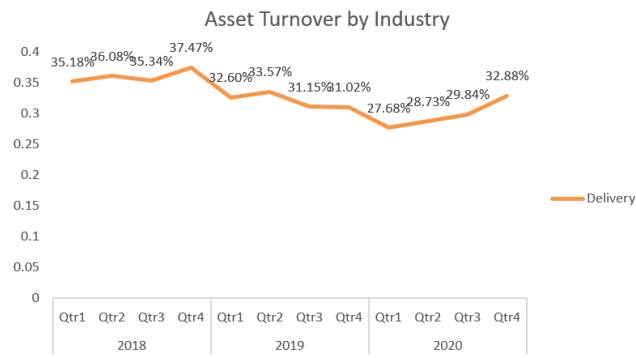
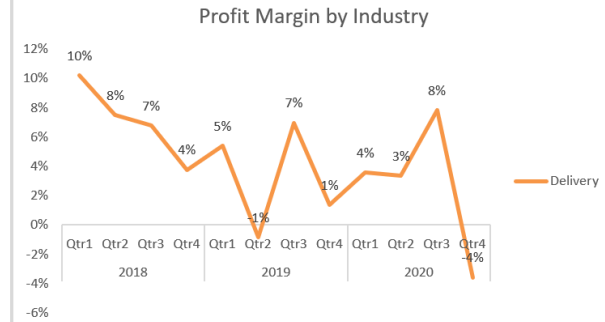
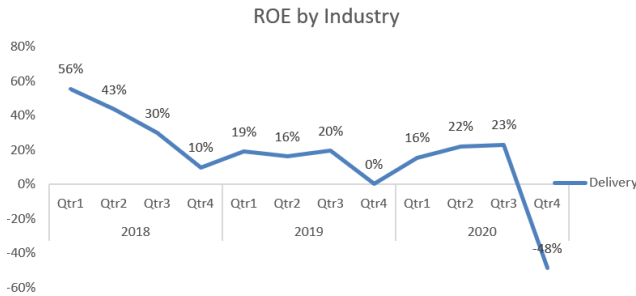


**Exhibit 3: Financial Ratios for the Retail/Internet Industry and Individual Corporations.  
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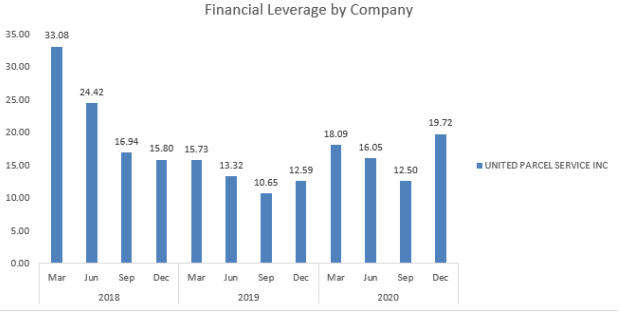
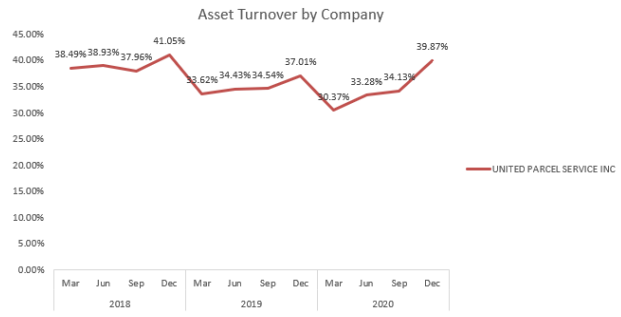
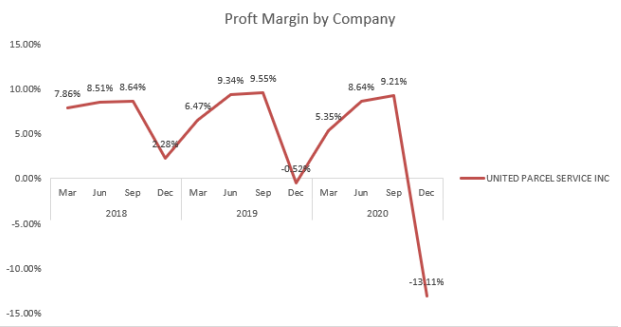
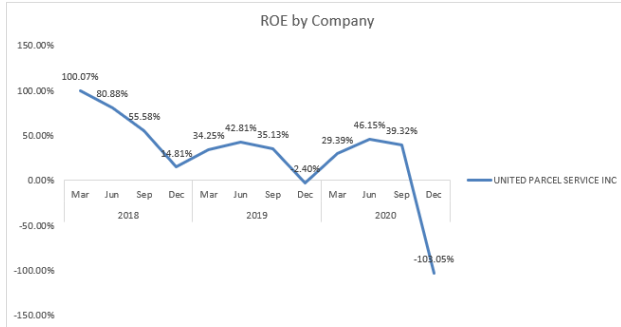




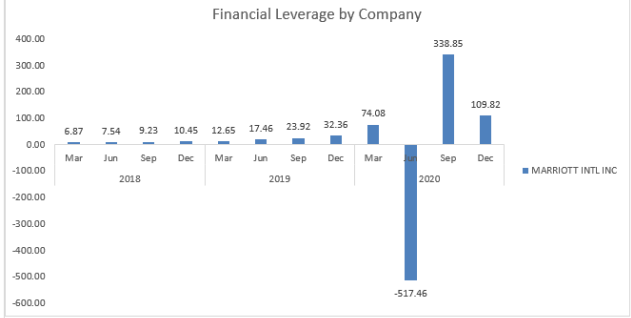
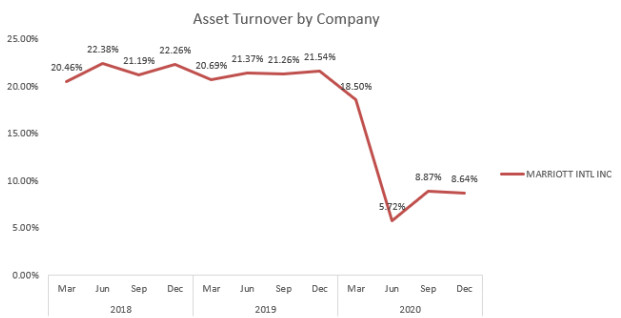
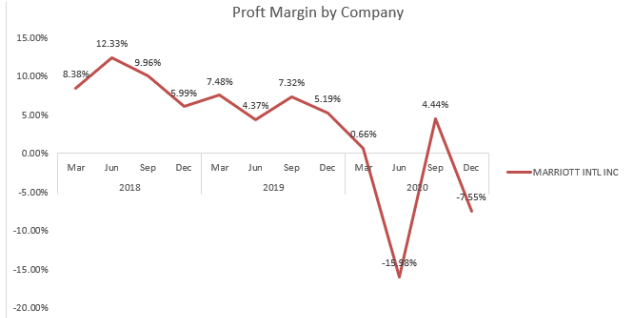
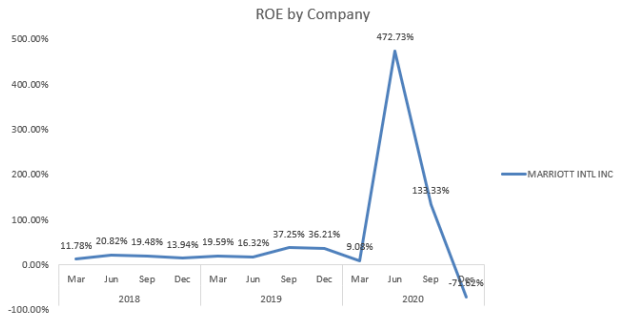
## Exhibit 4: Financial Ratios for the Delivery Industry and Individual Corporations. Represented in the Most Admired Companies List.



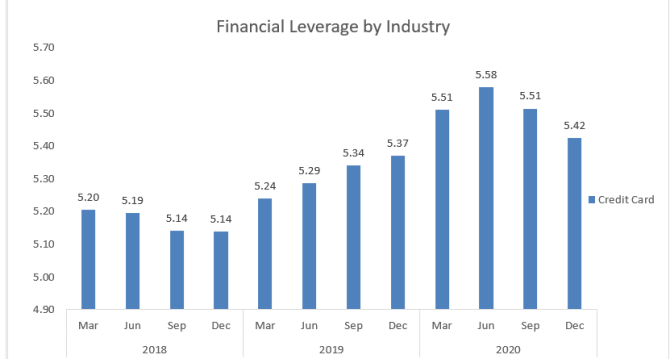
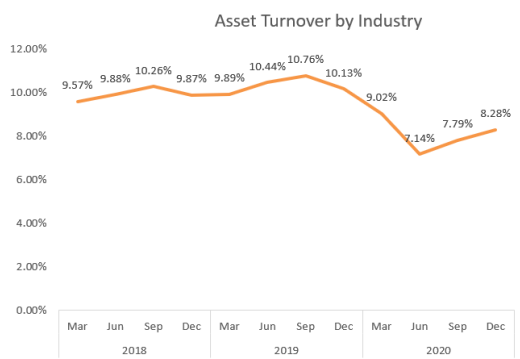
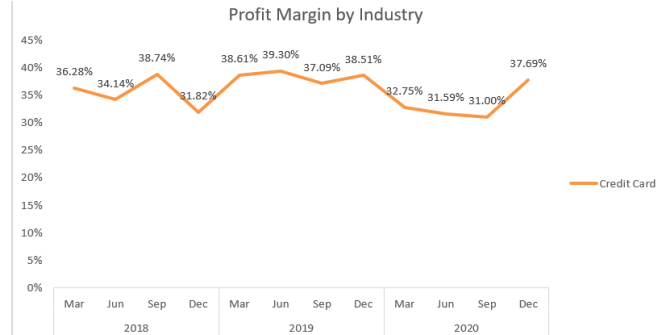
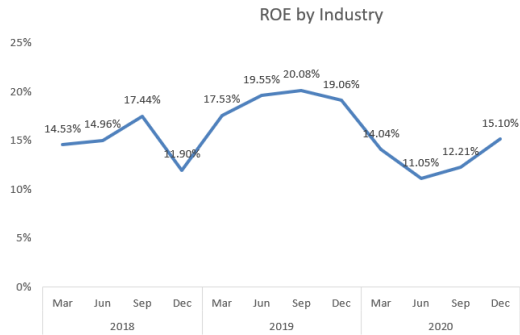


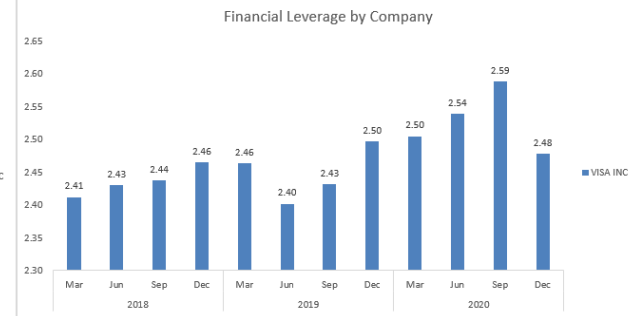
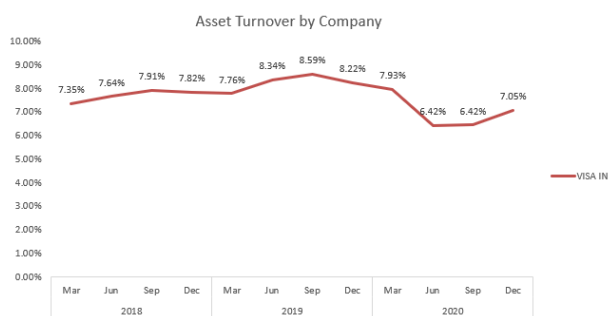
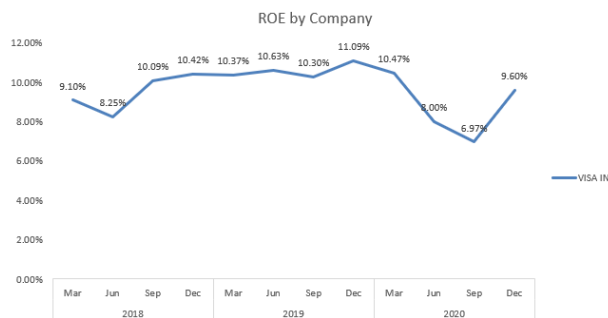
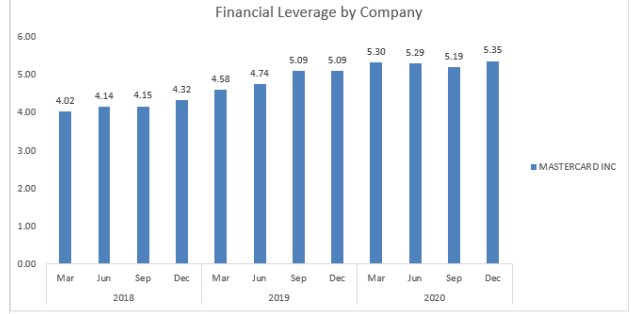
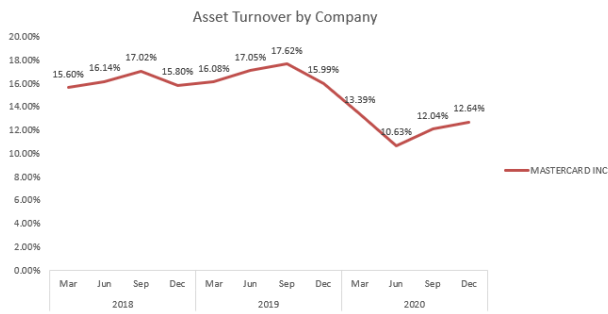
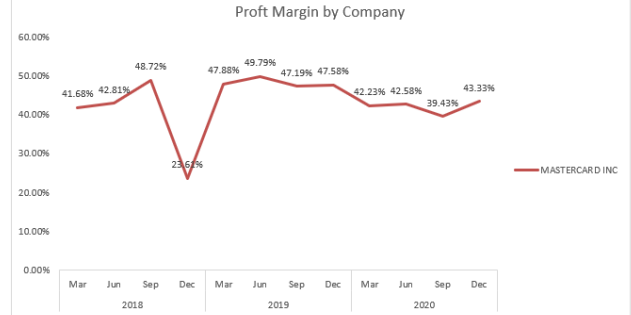
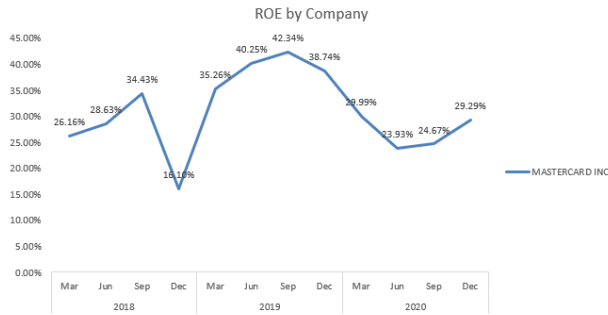


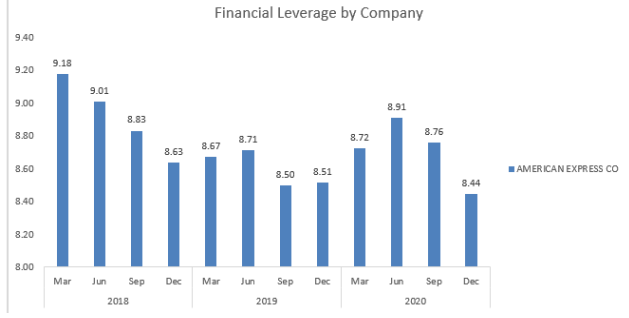
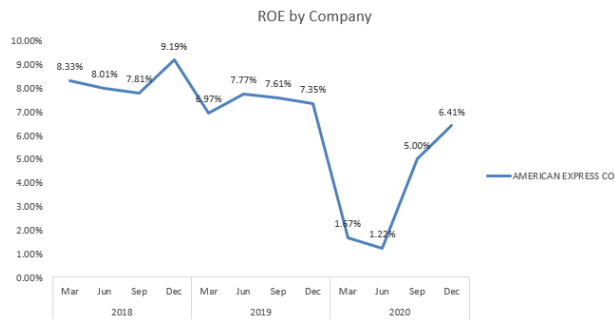
**Exhibit 5 : Financial Ratios for the Hospitality Industry and Individual Corporations.  
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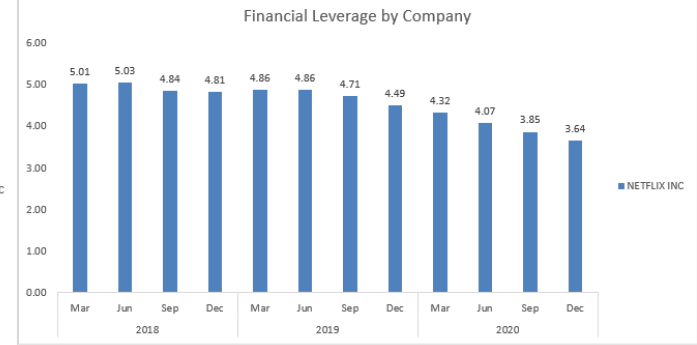
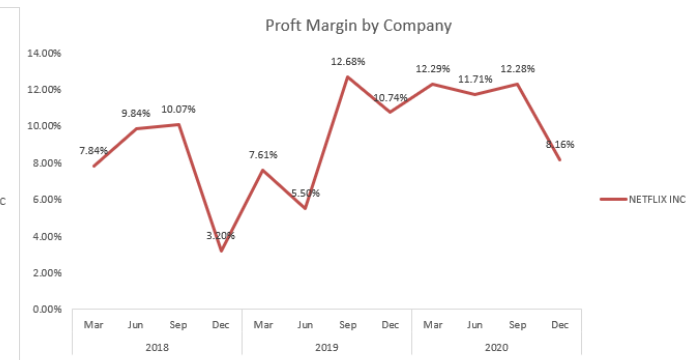
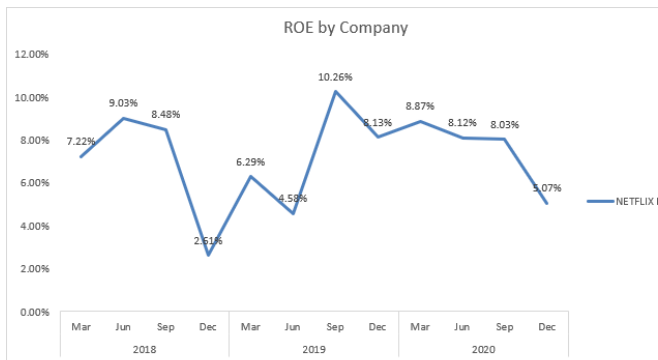
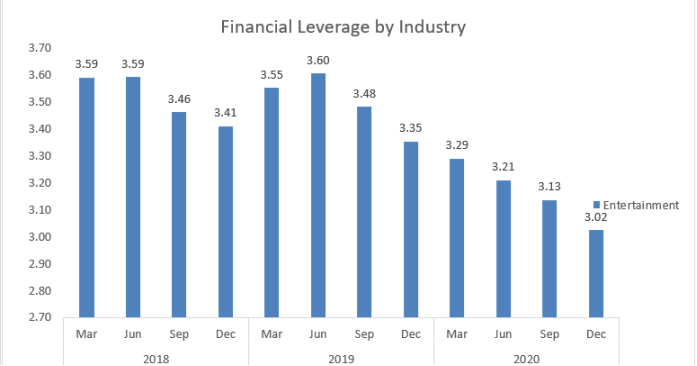
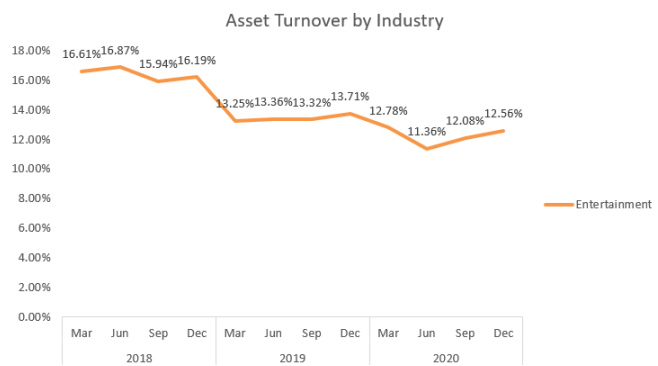
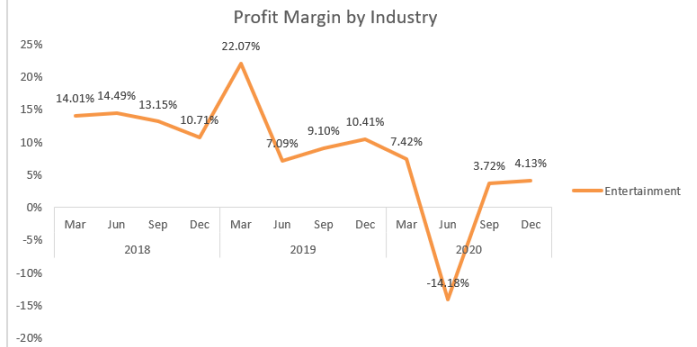
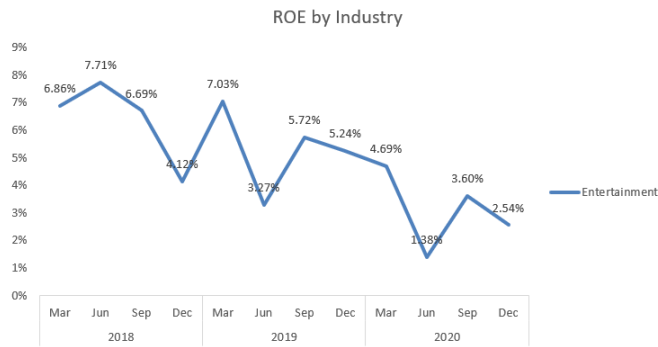
**Exhibit 6: Financial Ratios for the Credit Card Industry and Individual Corporations.  
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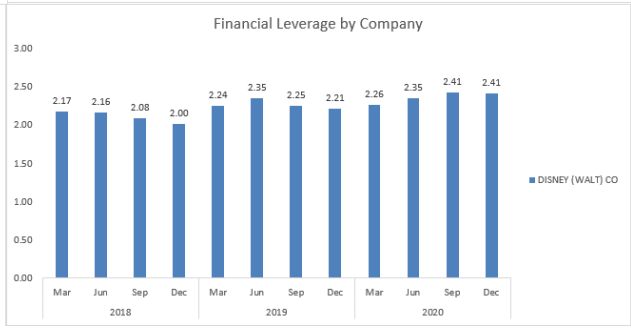
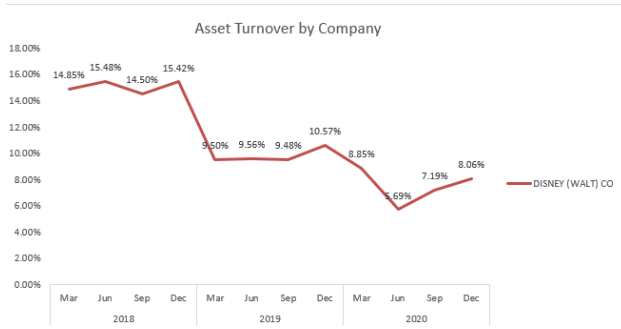
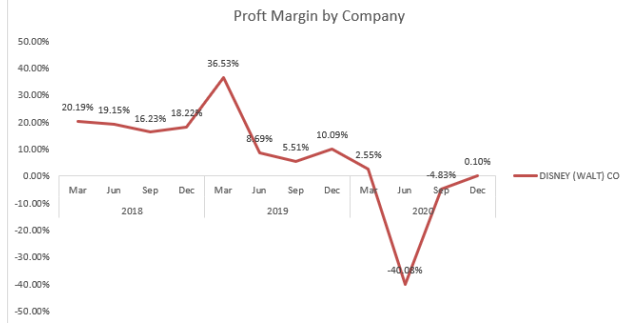
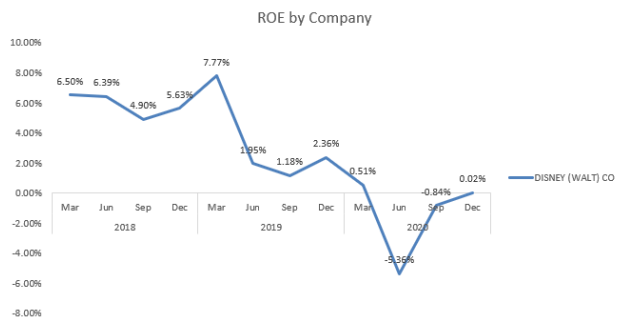






# Exhibit 7: Financial Ratios for the Entertainment Industry and Individual Corporations. Represented in the Most Admired Companies List.





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