

Research on the Analysis of the Tims Coffee Solvency

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Abstract. With the deepening of reform and opening up and the rapid development of China's economy, the vast domestic market attracts outstanding domestic and foreign enterprises to develop here. Tims coffee chain has come to China, a country where tea is the traditional drink. It has won a good reputation among Chinese consumers with its new business model, advanced business philosophy and quality service, and has become a model for many chain enterprises to follow. The market economy is constantly evolving, and solvency analysis is an important part of enterprise financial analysis, which is of great significance for enterprise solvency and promoting enterprise development. Taking Tims Coffee as an example, this paper uses relevant financial statements and data statistics to analyze the relevant indicators and various capabilities of the enterprise. Starting from the important indicators for measuring the enterprise's debt-paying ability, the short-term and long-term debt-paying abilities of the enterprise are analyzed by calculating indicators such as current ratio and quick ratio. In order to better address the risks faced by Tims Coffee, financial measures for risk avoidance, resolution and transfer are proposed to enable Tims Coffee to identify and assess various uncertain events and keep its risk indicators within an acceptable range. Finally, this paper presents reasonable suggestions on these issues as well as prospects for the future.

Keywords: Tims coffee, Solvency, Financial analysis

1. Introduction

With the improvement of China's economic level, people have higher pursuits in spiritual and cultural life. The consumer group of coffee is expanding day by day, and coffee culture is gradually taking shape and continuing to develop at a relatively fast pace. Facing the huge international market, many state-owned and private enterprises in our country are eager to expand outward, and there are many problems in their development. Not only do managers lack professional management knowledge, they also lack of attention to finance, which leads to low control over the enterprise and prevents the enterprise from developing well and continuously.

This article mainly takes the financial data of Tims coffee as the basis, conducts relevant analyses on various financial elements such as the debt-paying ability of Tims Coffee, systematically analyzes various financial indicators of Tims coffee by searching a large amount of financial data, puts forward practical suggestions through real and scientific data, and summarizes the methods and means of financial control. It is hoped that related industries in China can draw inspiration from this.

This article can effectively analyze the solvency ability of Tims Coffee. Through this analysis, the hidden problems existing in the coffee shop are exposed. Thus, solutions can be sought for these problems to improve operational capabilities, extend the business cycle and increase profits of the coffee shop.

2. Overview of Tims Coffee

2.1. Company introduction

Tims is a coffee chain brand founded in Toronto in 1964 by Canadian ice hockey player Tim Horton. In 2018, Tims' parent company and Cartesian Capital jointly established Tims China. The first Tims store in China opened in Shanghai in 2019. In 2021, Tims China received a new round of financing led by Sequoia Capital, with additional investment from Tencent and follow-on investment from Zhongding Capital, and successfully made its debut on Nasdaq in 2022. By 2023, Tims China had more than 600 stores in its domestic market.

2.2. Development goals

The uniqueness of Tims coffee lies in its business model, which is different from that of other enterprises. It adopts a way of adapting to local conditions, understanding the foot traffic, price level and economic situation of each place and then adopting the corresponding cooperation model. The desire for lifestyle change has created its core brand value. One of Tims Coffee's main competitive strategies is to communicate with customers in coffee shops, with particular emphasis on communication with customers. In the stores of Tims Coffee, communication and interaction between customers and staff are everywhere, with the experience as the platform, and the experience is brought to life through specific details. "Tims Coffee also works with local non-profit organizations to set up temporary absorption stations and other activities for vulnerable neighbors," which strengthens the company's connection with its customers, Camille Hymes wrote. Tims Coffee, which focuses on its business in China, is bound to adopt a business model different from that in other places such as Hong Kong, Taiwan and Shanghai, where it has a much smaller stake of just 5 percent, which is closely related to competitors from local enterprises. In some countries and regions, Tims is only authorized to operate and has no equity. Tims' choice of equity is determined by the market. The larger the market, the more important it is, and the more equity it has.

2.3. Financial status

Before 2021, Tims Coffee's same-store revenue growth was mainly driven by rapid store expansion and high order volume growth. After 2021, as store density increased, order growth slowed, and same-store revenue growth was driven by higher average transaction value. In terms of product composition, beverages and desserts accounted for 61% of total revenue and 75% of direct store revenue in 2022, being the main source of revenue. But the gross profit margin is on a downward trend: during 2019-2021, the gross profit margin fluctuated significantly, mainly due to fluctuations in raw material prices; In 2021-2023, gross margin dropped from 59.18% to 55.23%, mainly due to supply chain drag and increased transportation costs due to rapid expansion of stores [1].

3. Analysis of Tims Coffee's solvency

3.1. Short-term solvency analysis

Table 1. Tims Coffee short-term solvency data table 2019-2022

Year	2019	2020	2021	2022
Current ratio (%)	219.8	91.7	106.3	119.7
Solvency ratio(%)	195.2	66.9	85.1	100.0

From this table, we can see that from 2019 to 2022, the current ratio first decreased and then increased, and the solvency ratio also first decreased and then increased. Both ratios were the lowest in 2020 and the highest in 2019.

3.1.1. Current ratio

The current ratio = current assets of the enterprise $\div$ current liabilities of the enterprise $\times 100\%$. In simpler terms, the current ratio indicates whether the enterprise's daily cash is sufficient to cover its daily current liabilities and reflects the extent of this calculation. From the data sheet analysis, it was found that Tims Coffee's current ratio showed a continuous upward trend in the following three years after a decline in 2019-2020. As shown in Table 3.1, the current ratio in 2019 was 219.8%, the highest in four years, and in 2020 it was 91.7%, a very obvious decline. The current ratio was 106.3% in 2021 and 119.7% in 2022 [2]. A current ratio of 1.5 to 2.0 is generally most appropriate. A higher current ratio indicates less need for short-term capital support in daily operations, but a higher ratio indicates lower capital utilization efficiency. But according to the data, Tims Coffee only reached 2.0 in 2019, which indicates that Tims Coffee has a good ability to pay in cash and is guaranteed to repay debts. The fact that it did not reach 1.5 for the following three years indicates that it has too few current assets or too many current liabilities. The company should take measures to strengthen the management of current assets, enhance liquidity and improve short-term debt-paying ability [3].

3.1.2. Quick ratio

The quick ratio = quick assets of the enterprise $\div$ current liabilities of the enterprise $\times 100\%$. Similarly, this indicator reflects whether the enterprise's daily quick cash is sufficient to cover the enterprise's daily current liabilities and calculate the extent of payment. The data sheet shows that the quick ratio of Tims Coffee has continued to rise over the past three years. It reached a four-year peak of 195.2% in 2019, 66.9% in 2020, 85.1% in 2021, and continued to rise to 100.0% in 2022. It can be seen from the table that the current ratio of Tims coffee has been proportional to the increase in the quick ratio over the past four years. A quick ratio of 1 is generally appropriate when a company is considered to have sufficient capacity to pay off short-term liabilities. Tims Coffee exceeded a quick ratio of 1.0 only in 2019 and reached it again in 2022, indicating that quick asset payments were relatively strong during these years, while the company's short-term debt-paying ability remained stable; however, this stability suggests that the company's operating conditions deteriorated from 2020 to 2022. Tims Coffee should continue to take corresponding measures to enhance the guarantee of repayment for current liabilities.

3.2. Long-term solvency analysis

Table 2. Tims Coffee long-term solvency data table 2019-2022

Year	2019	2020	2021	2022
Debt-to-asset ratio (%)	95.1	132.4	126.6	116.9
Interest coverage multiple	22.35	11.83	3.47	9.91

The asset-liability ratio = total liabilities of the enterprise $\div$ total assets of the enterprise $\times 100\%$. This ratio refers to the proportion of total liabilities in total assets. As shown in Table 2, the ratio of Tims Coffee has been on a downward trend in the last three years since it rose in 2019-2020. The debt-to-asset ratio is a measure of a company's ability to operate with funds provided by its creditors. If a company has a high debt-to-asset ratio, it indicates a high level of debt. Tims Coffee should continue to strengthen the management of accounts payable and keep the debt ratio at a reasonable level [3].

3.3. Comprehensive analysis of debt-paying ability

Through the analysis of various indicators of solvency, it can be seen that Tims coffee has been improving in recent years. The chart concludes that in the last four years, Tims Coffee had the best corporate financial position in 2019, with both current and quick ratios remaining at a reasonable level and the company's debt-to-asset ratio being relatively low. However, from 2019 to 2020, there were significant changes in various indicators. The current ratio and quick ratio declined, while the debt-to-asset ratio increased, indicating a negative trend in the company's financial situation. But from 2020 to 2022, all the indicators of the company improved and the company's condition gradually picked up. Although the debt-to-asset ratio is still at a high level, it can be seen that there is a huge potential and market for Tims Coffee, which will also provide a prosperous and stable sales market for the company. From an overall perspective, it can be seen that Tims Coffee should improve its debt-paying ability, which requires a reasonable control of the ratio of its current assets to current liabilities, thereby increasing the liquidity of the company's funds.

4. Suggestions for enhancing Tims Coffee's debt-paying ability

4.1. Optimize the capital structure

The capital structure of an enterprise is a core issue in its financing decisions. Enterprises should, based on their own scale of operation, fully consider their tolerance for possible debt crises, reasonably determine investment and financing goals and plans, formulate corresponding financing plans, analyze and evaluate the possible impact of capital costs and debt capital scale under different plans on the enterprise, select the best plan and implement [4] it. Keep the debt capital and equity capital within a relatively reasonable range, optimize the capital structure, maintain the balance of the capital structure, enhance the safety and efficiency of the use of funds, and at the same time take into account the higher returns [5] of the enterprise.

4.2. Develop a reasonable debt repayment plan

Debt repayment is an important economic activity for the enterprise. If not handled properly, it will damage the image and reputation of the enterprise and also affect its later financing and business activities. Therefore, the enterprise needs to make a reasonable debt repayment plan, which is a way for the enterprise to develop normally in the future. If there is no reasonable arrangement and careful plan, it is very likely that the repayment will not be timely, thus affecting the enterprise's credit, affecting the enterprise's financing, and hindering its development. Therefore, the enterprise needs to have a reasonable debt repayment plan, fully considering the use of assets, arranging their use and integrating them in a timely manner to relieve the enterprise's debt pressure, so that there will be sufficient funds for repayment [6] when the debt is due.

5. Comparative analysis of cases

5.1. Starbucks solvency analysis

Starbucks is a well-known international coffee chain that has been operating globally for many years. In terms of solvency analysis, Starbucks has a relatively high solvency level because it has a large cash flow and a stable debt structure.

Firstly, Starbucks has a strong cash flow, which is reflected in its high profitability and stable revenue growth. As a profitable company, Starbucks has a high return on equity (ROE) and return on assets (ROA), indicating that it has good operational efficiency and profitability. In addition, Starbucks has a stable revenue growth, which is reflected in its consistent quarterly and annual revenue growth rates. This stability of revenue growth indicates that Starbucks has a reliable cash flow generation ability, which is conducive to maintaining a high solvency level.

Secondly, Starbucks has a relatively low debt-to-equity ratio, indicating that it has a stable debt structure. Starbucks has a relatively low leverage ratio, which means that its debt burden is relatively light and its financial risk is relatively low. This stable debt structure helps maintain Starbucks' solvency level and reduces the risk of default.

In summary, Starbucks has a high cash flow and stable debt structure, which contributes to its relatively high solvency level. Therefore, Starbucks is considered to have good financial health and stability [7].

5.2. Luckin's solvency analysis

The ability of solvency is an important indicator for evaluating the financial health of an enterprise, as it reflects the enterprise's capacity to repay debts. Below, the author analyzed the solvency ability of Luckin from two aspects: short-term debt repayment ability and long-term debt repayment ability. The following is the analysis of Luckin's solvency ability. In 2023, the current ratio of Luckin was 2.5 which was much higher than the industry average. This indicates that the company has sufficient liquid assets to repay short-term debts and has a relatively strong short-term debt repayment ability. The quick ratio of Luckin Coffee in 2023 decreased slightly compared with the same period of the previous year, indicating that the company faced relatively high liquidity risks in 2023 and needed to further strengthen its debt repayment capacity [8]. In 2023, the total debt-to-total assets ratio of Luckin was 30%, indicating that the company had relatively low debt and strong long-term debt-paying ability. Meanwhile, data shows that its 2023 debt-to-asset ratio decreased compared to the

same period last year, which further demonstrated that the company's debt-paying ability had improved [9].

5.3. Comprehensive analysis

Overall, the debt-paying ability of Luckin is quite good. In the short term, its high current ratio enables it to have sufficient liquid assets to cope with short-term debts; in the long term, its low debt-to-equity ratio indicates that the company's debt scale is reasonable and the financial risk is relatively low. However, the past financial fraud incident has made the market more strictly scrutinize the credibility and transparency of its financial data. In the future, Luckin still needs to continuously optimize its financial structure and further enhance its debt-paying ability and financial stability.

6. Conclusion

This article, through the financial analysis of Tims Coffee, shows that during the period of China's rapid economic development, Tims Coffee, with their advanced marketing concepts, created a good corporate reputation. This article briefly introduces the basic theories related to financial statement analysis and provides a general overview of the company's background and development. This paper applies the theoretical knowledge of risk to Tims coffee, uses financial tables to analyze the various capabilities of the enterprise, assesses the capability indicators, and then makes corresponding analyses and control measures based on the specific assessment results. According to the research results, it can be found that Tims Coffee, as the most promising coffee seller, has inevitable financial risks but also has certain preventive measures in place. A review of the relevant information reveals that Tims coffee has a very optimistic and advantageous development prospect in the coming years. Tim's Coffee attaches great importance to the development of its business in China and is quite confident that it will continue to open up the Chinese market, expand its customer base, and take a deeper root in the minds of consumers. So for now, it seems that Tims Coffee still has some strength to compete with local enterprises.

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