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NorthWestern Corporation Financial Statement Analysis

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NorthWestern Corporation

A Financial Analysis Report

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By
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EXECUTIVE SUMMARY

In this financial statement analysis, I chose as my main company NorthWestern Corporation (NWE). NWE is an energy producer and distributor that supplies both electricity and natural gas to the states of South Dakota, Montana, and Nebraska. NWE was founded in 1923 in Sioux Falls, South Dakota. These segments will be looking into the firm's characteristics, as well as the analysis of their current market and analyze the characteristics of the energy production and distribution industry.

The second portion of this analysis will compare data from our benchmark firm, MGE Energy (MGEE). MGEE is an energy producer and distributor of electricity and natural gas. MGEE is headquartered in Madison, Wisconsin and founded in 2001 after forming a holding company, making Madison Gas and Electric Co. its main subsidiary. The information that we will be comparing is a summary of the significant accounting policies used, the quality of earnings, and the historical financial statement analysis.

In conclusion, we will determine whether NorthWestern Corporation is financially sound. From the findings that I have seen in the financial analysis, NorthWestern Corporation is financially sound compared to MGE Energy.

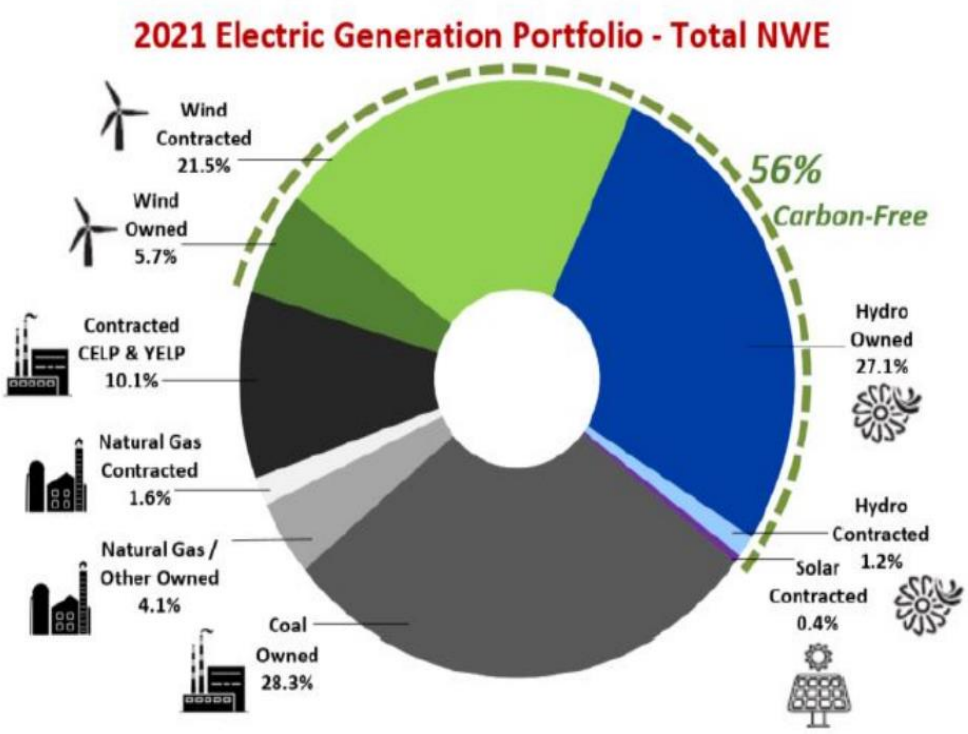
INTRODUCTION

Energy is the world's most coveted resource. Wars have been waged, governments toppled, and others made ridiculously wealthy because of it. It's everywhere in our daily lives, quietly humming as we sleep, keeping us warm during the cold winters; you can never get away from it. This energy has a cost, though, we see it in our energy bill, but does that truly reflect the industry that heats and powers our homes? From the U.S. Energy Information Administration, the U.S. total energy consumption in 2021 alone was 97.33 quadrillion British thermal units, or Btu. The two major sources of energy production come from petroleum (36%) and natural gas (32%). Another source, the International Trade Administration website, tells us that the United States is a leader in the production and supply of energy and is one of the world's largest energy consumers as well. This industry holds massive power causing them to split into groups depending on the energy produced. One such firm in this field is NorthWestern Corporation. First, we will be looking into the firm's characteristics and going further in-depth with NorthWestern's history, the market analysis and how the firm operates, and the characteristics behind the industry. Secondly, we will be comparing the financial statement analysis for both NorthWestern Corporation and our benchmark company, MGE Energy. Finally, I will conclude this financial analysis by determining whether NorthWestern Corporation is financially sound compared to MGE Energy.

FIRM CHARACTERISTICS

NorthWestern Corporation is an LLC providing electricity and natural gas in Montana, South Dakota, and Nebraska through their business as NorthWestern Energy. They also supply electricity and natural gas to Yellowstone National Park. Their current consumer base consists of 753,600 customers across 501 communities. NorthWestern Energy runs 8,127 miles of transmission lines carrying high-voltage electricity and 20,497 miles of distribution lines carrying low-voltage electricity. NorthWestern Energy runs 7,462 miles of distribution pipelines and 2,166 miles of transmission pipelines for their natural gas. NorthWestern Corporation has been in operation since 1923 as Northwestern Public Service Company, based in Sioux Falls, South Dakota.

The services that NorthWestern Energy consist of both electric utility operations and natural gas utility operations. Electric operations include producing or purchasing, transmitting, and distributing electricity. There are two methods that NorthWestern uses to produce their electricity: Carbon-Free and Carbon-Based methods. Carbon-Free methods used to produce electricity are wind farms, hydro generators, and solar panels. Carbon-Based methods use coal and gas to produce electricity. Natural gas operations include the same services as electric operations, but also store natural gas.



As seen in the graph above, it shows the percentage of NorthWestern's electric generation methods in all three states, as seen in NorthWestern's 2021 Annual Report.

Strong customer support and technology are a strength of NorthWestern. NorthWestern's customer support is seen in its continued expansion of their capabilities to keep up with changes to the energy landscape to give its consumers the best energy. They are looking to invest more in their infrastructure, supply resources, and operating efficiency. Even on NorthWestern's website, they offer their customers tools to manage their accounts, move services to a new location, report outages, and scheduling for any construction services.

NorthWestern's technological innovations have improved electric generation for their consumers, especially methods of producing carbon-free electricity such as wind farms, hydro generators, and solar panels. They are also looking for ways to upgrade their customer's meters technology. Weaknesses of NorthWestern include the high cost of

technological enhancements needed in the ever-changing landscape of energy. The need to maintain older systems, and update to newer systems of pipes and lines is costly.

Leadership:

NorthWestern Energy's leadership consists of both an executive team and a board of directors. Robert C. Rowe has been the CEO of NorthWestern since 2008. Brian B. Bird is the current president and COO; he is responsible for the corporate development and operations for electric and natural gas transmission, distribution, energy supply, technology, and customer care. Crystal D. Lail is the vice president and CFO; she is responsible for accounting, financial reporting, payroll, accounts payable, regulatory accounting, treasury, and internal audits. There are also six more vice presidents that run different portions of the company. Heather H. Grahame is the general counsel and vice president of regulatory and federal government affairs; her responsibility is handling the in-firm and outside legal activities, state regulatory affairs, federal government affairs, and South Dakota and Nebraska government affairs. Michael R. Cashell is the vice president of the transmission department. This involves electric and natural gas transmission, storage, FERC/NERC compliance, and support services. John D. Hines is the vice president of the supply department and Montana government affairs; his responsibility is the planning for both electric and natural gas, procurement and generation operations, NorthWestern's environmental functions, and Montana's government affairs. Curtis T. Pohl is the vice president of the distribution department; his responsibility is for the distribution operations for electric and natural gas, as well as the safety and support services offered. Bobbi L. Schroeppel is the vice president of the customer care, communications, and human resources department; her responsibility is

customer care, economic development, key account management, community relations, corporate communications, and human resources. Jeanne M. Vold is the vice president of the technology department; her responsibility is operating technology and deployment, cyber security, network operations, and strategic direction.

Their current board of directors is currently eight individuals. The chairman of the board is Dana J. Dykhouse, the CEO of First PREMIER Bank. He has been a director of the board since January 2009. Anthony T. Clark, the senior advisor of the law firm Wilkinson Barker Knauer LLP and former FERC Commissioner, has been a director since December 2016; his committees are nominating and governance, as well as human resources. Jan R. Horsfall, a managing partner of Red Surfboard, has been a director since April 2015; his committees are the chair of operations, as well as audits. Britt E. Ide, president of Ide Energy and Strategy, has been a director since April 2017; her committees are nominating and governance, as well as human resources. Linda G. Sullivan, a retired executive vice president and CFO of American Water, has been a director since April 2017; her committees are the chair of the audit, as well as operations. Mahvash Yazdi, president of Feasible Management Consulting and former senior vice president and CIO of Edison International and Hughes Electronics, has been a director since December 2019; her committees are the chair of human resources as well as operations. Jeffrey W. Yingling, a partner of Energy Capital Ventures, has been a director since October 2019; his committees are the chair of nominating and governance, as well as audit. The last director is Robert C. Rowe, the current CEO of NorthWestern Corporation.

There have also been additional changes that have occurred in the leadership. These current changes focus on positioning NorthWestern for future success through developing leadership in the organization and advancing leaders doing work for consumers. At the request of Robert C. Rowe in February 2021, the board of directors approved the modification of the executive leadership team. Robert C. Rowe remains as the CFO, and Brian Bird takes the new role of president and COO, Crystal Lail the role of vice president and CFO, and Jeanne Vold the role of vice president of the technology department. Both Robert and Brian developed specific areas where they will be focusing and working along with the operational vice presidents.

MARKET ANALYSIS

NorthWestern Energy's market base is a mix of residential, commercial, and industrial consumers for both the electric and natural gas operations in the states of Montana, Nebraska, and South Dakota. NorthWestern is responsible for supplying these consumers with affordable and reliable electric and natural gas services to heat and cool, as well as power homes and businesses.

A majority of the energy that's supplied to their consumers is regional. For example, the state of Montana has a variety of methods of generating electricity, such as hydro-generated electricity and solar, while South Dakota is limited to using more carbon-based methods. The labor markets that NorthWestern uses are third-party business partners who supply materials, equipment, and labor to operate utilities and serve customers.

However, being based out of the Midwest can have negative effects on the demand for transmission and sales. The demand for transmission capacity fluctuates with regional demand, fuel prices, and possible weather conditions. Regional demand is affected by the needs of regions with greater demand for natural gas and electricity. Fuel prices affect the cost of the production of electricity and natural gas. Severe weather conditions may cause power outages and may prevent any required maintenance. Sales depend on the wholesale market price, market participants, transmission availability, availability of generation, and ongoing development.

INDUSTRY CHARACTERISTICS

Opportunities that NorthWestern is taking is expanding into new technology. One piece of new technology is the smart meter. The smart meter allows for two-way communication between Northwestern and the customer's meter, tracking for any outages that may occur. One perk of this technology is collecting data on grid operations, allowing for new customer programs and expanding energy-efficient technology. Another opportunity that NorthWestern is embracing being environmentally committed. NorthWestern's Environmental Team addresses potential environmental events in which they will participate. Some of these events that they participate in are implementing sustainable practices to conserve resources, and replacing vehicles and equipment with electric power. By 2030, they aim to replace 20% of vehicles, 30% of bucket trucks, and all forklifts with an electric run.

NorthWestern faces threats from potential competitors. With more competition, more energy options are open to consumers to replace NorthWestern. Competitors that NorthWestern goes up against include MGE Energy, Otter Tail Power, Western Natural Gas, and San Diego Gas Price. Another threat that NorthWestern faces currently is scarcity in materials or higher prices in materials, as well as labor and construction costs. Since the Covid-19 pandemic, there have been difficulties in receiving supplies and an escalation in the price of materials and labor. If these conditions continue, difficulties in offering services to customers will continue and will result in increasing current customer utility rates.

The Porter Five Forces model examines the forces that influence a company's strategy. The five forces are competition in the industry, potential new entrants in the

industry, the power of customers, the power of suppliers, and the threat of substitute products. Competition in energy utilities is quite large for NorthWestern, especially since their public policies promote competition and the development of energy markets. New entrants in the energy industry have also been on the rise. Since energy has been in high demand, it opens up more competition in the production of energy. Suppliers also have a large amount of power because of the increase in prices and delayed supplies and materials to NorthWestern. Substitutes for natural gas are limited, but electricity can generate in several ways through solar, wind, and hydroelectric.

FINANCIAL STATEMENT ANALYSIS

For this portion of the analysis, we will be going over the financial analysis performance for both NorthWestern Corporation and MGE Energy. This will allow us to to compare and better understand how sound both firms have been in the past five years. Doing this will involve summarizing the significant accounting policies, quality of earnings, relevant ratios, the cash conversion cycle, and the overall growth shown in the financial statements.

Summary of Significant Accounting Policies:

Both firms prepare their consolidated financial statements in conformity to GAAP, or generally accepted accounting principles, and are required to make estimates and assumptions that will affect the reported amounts of their assets, liabilities, etc. Cash equivalents for both firms are defined as highly liquid investments with maturities of three months or less to be cash equivalents. Derivative and hedging instruments for both firms are defined as all derivatives in their consolidated balance sheets at fair value unless they qualify for normal purchases or normal sales. Both firms also state that the cash flows related to derivative instruments are consistent with the underlying nature of the hedged items. Property, plant, and equipment for both firms are stated at their original cost and use straight-line depreciation rates for the cost of depreciable property. Revenue recognition for both firms occurs when they deliver their services to the consumer or when the consumer obtains control. Income taxes for both firms follow the liability method of accounting for taxes.

However, there are key differences between NorthWestern and MGE. NorthWestern Corporation includes net accounts receivable, while MGE includes margin accounts receivable and trade receivables. A few extra principles labeled for NorthWestern are regulations of utility operations, pension and postretirement benefits, and supplemental cash flow information. Additional policies that MGE contains are principles of consolidation, regulations, retirement obligations, utility cost recovery, allowance for construction, and investments.

Goodwill:

NorthWestern Corporation conducted an annual goodwill impairment test on April 1, 2021 with no impairment identified. They were able to calculate the fair value of their reporting units by considering various factors, such as studies based on a discounted cash flow analysis, with published industry values and market data to support their information. However, their key assumption in calculating fair value is the use of an appropriate discount rate and their estimated future cash flows.

Table 1: Goodwill by Segment for NorthWestern Corporation (in $ thousands).

	2021	2020	2019	2018	2017
Electric	$243,558	$243,558	$243,558	$243,558	$243,558
Natural Gas	114,028	114,028	114,028	114,028	114,028
Total Goodwill	$357,586	$357,586	$357,586	$357,586	$357,586

This table shows the goodwill amounts for NorthWestern Corporation in the past five years have remained constant.

When compared to our benchmark, MGE Energy does not contain any goodwill in their firm.

Inventories:

NorthWestern Corporation's inventory consists of materials and supplies, and storage of natural gas and fuel. MGE Energy's inventory on the other hand consists of natural gas in storage, fuel for electric generation, materials and supplies, and renewable energy credits (RECs). REC is included in the consolidated balance sheets as materials and supplies and recorded depending on specific identification. Both firms value their inventory by using the average cost.

Table 2: Total Inventories for NorthWestern Corporation (in $ thousands).

NorthWestern Corporation	2021	2020	2019	2018	2017
Materials and Supplies	$54,137	$44,311	$42,791	$36,926	$34,630
Storage Gas and Fuel	26,477	16,699	11,134	13,889	17,802
Total Inventories	$80,614	$61,010	$53,925	$50,815	$52,432

Table 3: Total Inventories for MGE Energy (in $ thousands).

MGE Energy	2021	2020	2019	2018	2017
Materials and Supplies	$29,863	$32,513	$26,287	$24,093	$22,614
Storage Gas and Fuel	22,097	14,752	18,995	17,902	21,179
Total Inventories	$51,960	$47,265	$45,282	$41,995	$43,793

Quality of Earnings:

This section of the analysis will evaluate the quality of earnings by reviewing the external auditor reports, along with other metrics.

In regard to audits, NorthWestern Corporation is subject to FERC's regulations with respect to rates of electric transmissions. FERC, or the Federal Energy Regulatory Commission, is an independent agency that regulates the interstate transmission of electricity, natural gas, and oil. FERC also includes the Division of Audits and Accounting, or DAA, which allows them to provide firms with auditing services. NorthWestern's auditor since 2002 is Deloitte & Touche LLP, an independent, public audit firm based out of Minneapolis, Minnesota. From their assessment of their internal control of the financial reporting for NorthWestern Corporation, the auditor's opinion is that the firm has maintained, in all material respects, effective internal control over financing reporting as of December 31, 2021. MGE Energy's auditor is PricewaterhouseCoopers, also referred to as PwC. PwC is a public audit firm based out of Chicago, Illinois. They have been serving as their auditor since 1993. PwC's audit assessment states that MGE's internal control, in their opinion, maintained effective internal control as of December 31, 2021.

When comparing the last five years of NorthWestern Corporation's data, the quality of earnings has fluctuated over the past few years but is currently at a ratio of 1.1773. MGE Energy's quality of earnings ratio also appears to fluctuate over the past five years as well, currently with a ratio of 1.2531. When determining if a firm has high-quality earnings, the quality of earnings ratio needs to be close to one. From the data in Table 3, both NorthWestern and MGE alternate on who is leading with a higher quality

of earnings for the past five years. For the current year of 2021, NorthWestern Corporation has a higher quality earnings.

Table 4: Quality of Earnings Ratio for NorthWestern Corporation (in $ thousands, except ratio)

NorthWestern Corporation	**2021**	**2020**	**2019**	**2018**	**2017**
Cash Flow by Operating Activities	$219,978	$352,149	$296,720	$381,985	$322,738
Net Income	$186,840	$155,215	$202,120	$196,960	$162,703
Quality of Earnings Ratio	1.1773	2.4418	1.4680	1.9394	1.9836

Table 5: Quality of Earnings Ratio for MGE Energy (in $ thousands, except ratio)

MGE Energy	**2021**	**2020**	**2019**	**2018**	**2017**
Cash Flow by Operating Activities	$132,527	$172,443	$130,475	$153,040	$131,373
Net Income	$105,761	$92,418	$86,874	$84,219	$97,606
Quality of Earnings Ratio	1.2531	1.8659	1.5019	1.8172	1.3460

We also compared the percentage of accounts receivable to sales revenues for both NorthWestern Corporation and MGE Energy. For the past five years, NorthWestern has seen a steadily increasing percentage while MGE's percentage has remained steady. For the current year of 2021, NorthWestern's percentage of accounts receivable in sales revenue is 14.48%, while MGE's percentage is 7.62%. This shows that NorthWestern has

a higher percentage of accounts receivable in the sales revenue for 2021, which leads to a higher amount of credit sales. This higher percentage of credit sales leads to a higher risk of non-collection.

Table 6: Accounts Receivable/Sales Ratio for NorthWestern Corporation (in $ thousands, except ratio)

NorthWestern Corporation	**2021**	**2020**	**2019**	**2018**	**2017**
Sales Revenue	$1,372,316	$1,198,670	$1,257,910	$1,192,009	$1,305,652
Accounts Receivable	$198,671	$168,229	$167,405	$162,373	$182,282
Accts. Rec./Sales	0.1448	0.1403	0.1331	0.1362	0.1396

Table 7: Accounts Receivable/Sales Ratio for MGE Energy (in $ thousands, except ratio)

MGE Energy	**2021**	**2020**	**2019**	**2018**	**2017**
Sales Revenue	$606,584	$538,633	$568,855	$559,768	$563,099
Accounts Receivable	$46,205	$41,384	$40,482	$43,593	$42,299
Accts. Rec./Sales	0.0762	0.0768	0.0712	0.0779	0.0751

Relevant Ratios and Interpretations:

This section compares the activity, liquidity and solvency, and profitability ratios for NorthWestern and MGE Energy for the last five years. Activity ratios demonstrate how quickly the firm is able to collect its revenues and how often receivables, payables, and inventory turnover. Liquidity ratios demonstrate how easily a firm can convert its assets into cash while solvency ratios show how well the firm is able to meet its financial needs. Profitability ratios illustrate the efficiency with which the firm generates income.

Table 8: Activity Ratios for NorthWestern Corporation

NorthWestern Corporation	2021	2020	2019	2018	2017
Accounts Receivable Turnover	6.91	7.13	7.51	7.32	7.16
Average Collection Period	52.84	51.23	48.57	49.72	50.96
Inventory Turnover	5.28	5.02	5.90	5.37	7.83
Days in Inventory	69.14	72.73	61.89	67.97	46.64
Accounts Payable Turnover	3.69	3.05	3.29	3.14	4.82
Days Payable Outstanding	98.84	119.67	110.97	116.43	75.75
Cash Conversion Cycle	23.14	4.29	-0.51	1.26	21.85
Asset Turnover Ratio	0.20	0.19	0.21	0.21	0.24

Table 9: Activity Ratios for MGE Energy

MGE Energy	2021	2020	2019	2018	2017
Accounts Receivable Turnover	6.25	7.07	7.65	7.17	6.77
Average Collection Period	58.43	51.63	47.69	50.92	53.89
Inventory Turnover	3.73	3.14	3.82	4.57	4.30
Days in Inventory	97.90	116.36	95.43	79.87	84.86
Accounts Payable Turnover	3.02	2.71	3.14	4.16	3.95
Days Payable Outstanding	120.87	134.52	116.24	87.79	92.32
Cash Conversion Cycle	35.46	33.47	26.88	43.00	46.43
Asset Turnover Ratio	0.26	0.24	0.27	0.28	0.30

NorthWestern Corporation is the stronger firm when it comes to activity ratios. NorthWestern has both a higher accounts receivable turnover and a shorter average collection period than MGE Energy in all years except 2019, indicating that it is more efficient at collecting from customers. Higher inventory turnover demonstrates how quickly the inventory used, while shorter days in inventory are how quickly inventory turned. NorthWestern has had higher inventory turnover and shorter days in inventory than MGE Energy in the past five years. A higher accounts payable turnover indicates that a firm can pay its bills in a shorter time, while a shorter day's payable outstanding is that the firm pays its debts quickly. NorthWestern has both a higher turnover and a shorter payable outstanding than MGE in all years except 2018. A higher asset turnover ratio shows that it is more efficient at using its assets. The asset turnover ratio demonstrates how efficient the firm is at using its assets to generate sales. For both

NorthWestern and MGE Energy, both firms tend to alternate year by year. Both firms had a slight decrease from the year 2017 but have now currently steadied or slightly increasing. The year 2021 shows that MGE Energy had a higher amount of efficiency than NorthWestern.

Table 10: Liquidity and Solvency Ratios for NorthWestern Corporation

NorthWestern Corporation	2021	2020	2019	2018	2017
Current Ratio	1.15	0.66	0.90	.80	0.47
Quick Ratio	0.57	0.40	0.54	0.51	0.31
Cash Ratio	0.05	0.04	0.04	0.04	0.02
Working Capital	23.60	-7.60	-38.66	-17.19	-3.89
Debt-to-Equity	189.80%	207.32%	189.87%	190.59%	201.34%
Times-Interest-Earned Ratio	3.03	2.49	2.92	2.94	2.91

Table 11: Liquidity and Solvency Ratios for MGE Energy

MGE Energy	2021	2020	2019	2018	2017
Current Ratio	1.69	1.10	1.41	1.99	2.30
Quick Ratio	0.97	0.63	0.76	1.34	1.51
Cash Ratio	0.15	0.23	0.18	0.69	0.85
Working Capital	7.44	28.97	10.77	4.67	3.43
Debt-to-Equity	44.48%	50.72%	50.91%	51.80%	57.71%
Times-Interest-Earned Ratio	5.56	5.75	5.62	6.69	7.19

When comparing both firms, it shows that they each have their own strengths. NorthWestern demonstrates its ability to pay its liabilities, as demonstrated in the current, quick, and cash ratios. MGE, however, demonstrates that it can pay for its debts from the time-interest earned ratio and has a lower risk from debt-to-equity. The current ratio demonstrates the firm's ability to pay its current liabilities while the quick ratio shows a firm's ability to pay its current liabilities without selling any inventory. A higher ratio for both firms shows they can pay for their liabilities. NorthWestern has both a higher current and quick ratio when compared to MGE in all five years. The cash ratio demonstrates the firm's ability to pay its current liabilities by just using cash while the time-interest-earned ratio demonstrates how many times interest expense is covered by operating income. A higher ratio for both demonstrates that it can pay its liabilities and debts. NorthWestern has a higher cash ratio compared to MGE in all years, while MGE has the time-interest-earned ratio in all years. Debt-to-Equity compares the total debt to total equity. A lower value shows that the firm has less risk. NorthWestern has a very high amount of risk when compared to MGE Energy in all five years. Although, it does appear that the debt-to-equity decreased in 2020 and 2021.

Table 12: Profitability Ratios for NorthWestern Corporation

NorthWestern Corporation	2021	2020	2019	2018	2017
Gross Margin	68.99%	74.46%	74.72%	77.72%	68.57%
Operating Margin	20.09%	19.71%	22.01%	22.34%	20.81%
Return on Assets	2.76%	2.43%	3.42%	3.49%	3.00%
Return on Equity	7.99%	7.47%	9.91%	10.14%	9.04%
Return on Invested Capital	4.38%	4.26%	5.33%	5.45%	5.32%
Return on Capital Employed	2.97%	2.44%	3.27%	3.36%	3.68%

Table 13: Profitability Ratios for MGE Energy

MGE Energy	2021	2020	2019	2018	2017
Gross Margin	68.06%	72.47%	69.55%	65.72%	66.55%
Operating Margin	19.34%	20.42%	19.50%	20.40%	22.13%
Return on Assets	4.46%	4.10%	4.17%	4.24%	5.26%
Return on Equity	6.44%	6.18%	6.30%	6.43%	8.30%
Return on Invested Capital	5.76%	5.62%	5.63%	5.56%	6.76%
Return on Capital Employed	4.87%	5.42%	5.46%	5.98%	6.92%

NorthWestern can be seen as profitable, but does have a smaller return in assets and invested capital. This shows that NorthWestern has had an increase in cost that causes a smaller amount of return. The gross margin is the amount of profit that the firm

has after subtracting the cost of goods sold from sales while the operating margin shows how much profit the firm has after deducting the operating expenses from the gross income. When these margins are high, they indicate the presence of significant revenues leftover to pay for taxes, pay equities, and keep as profit. NorthWestern had a higher gross margin in the past five years than MGE. However, NorthWestern had a higher operating margin in all years except 2017 and 2020. This shows that NorthWestern is profitable after making deductions from its sales. Return on assets determines how profitable a firm's assets are, while the return on equity determines its profitability through equity. The higher return on both shows that there is profitability in the firm's assets and equities. NorthWestern has a lower return on assets than MGE for all five years but has a higher return on equity in all five years. Return on invested capital determines how effective the firm is at converting its capital to profits—having a higher return show how profitable the firm is. However, NorthWestern has a lower return for invested capital when compared to MGE in all years.

Cash Conversion Cycle:

The cash conversion cycle (CCC), also called the working capital cycle, calculates the time a firm converts its sales into cash and the time cash is in inventory. The best way to be to calculate CCC is to add the Days Inventory Outstanding and Days Sales Outstanding, then subtract Days Payable Outstanding. For NorthWestern Corporation in 2021, the CCC for their firm is 23.14 days, while MGE Energy is 35.46 days. This shows that NorthWestern's cash is tied up in inventory and accounts receivable for a shorter period of time than is Energy's. Comparing both firms in previous years, they had high CCC until 2019, when NorthWestern had a negative CCC value. A

negative CCC value for NorthWestern occurs from an increase in accounts payable, a decrease in the accounts receivable, and a decrease in the inventory. Having a negative CCC demonstrates that NorthWestern can finance its operations without assistance from investors, making it beneficial.

Income Statement and Balance Sheet Conclusions:

For NorthWestern's income statement, their sales and gross profit growth have been steadily increasing over the five years. Operating income appears to fluctuate over the past five years, but is currently at a higher income than it was in 2017. The average compound annual growth rate currently is 0.0377. This shows how much their current value is going to grow. Compared to Energy's income statement, the firm has also had growth in its sales, gross profit, and operating income over the five years. However, NorthWestern is still ahead with its own values. MGE's average compound annual growth rate is 0.0273. Since NorthWestern's growth rate is greater than MGEs, NorthWestern will have more growth compared to MGE.

Cash Management Conclusion:

In regards to NorthWestern's cash management will involve looking into their statement of cash flows to determine growth in their activities. Operating activities have fluctuated in the past five years. This is due to the decrease in liabilities, the increase in accounts receivable, and the increase in assets. Investing activities have steadily increased the cash used in their investing activities. This is mainly due to the increase in property, plant, and equipment, and investments into equity securities. Financing activities had the highest cash-provided financing in the past five years. Even though

NorthWestern made a repayment of $100,000, they had an increase in the issuance of common stock and borrowed on a line of credit. To conclude NorthWestern's cash flows, the firm comes out with an increase in cash of $1,666 (in thousands).

MGE Energy's net income is higher than its previous years. However, the cash provided by operating activities appears to fluctuate through the years, and this current year is lower than in 2020. This is mainly due to the fact that MGE is increasing its inventory, increasing accounts receivables, and paying its prepaid taxes. Cash used for investing activities has decreased from the previous year, but they still are investing in capital expenditures and contributing to other investments. Financing activities also appear to fluctuate through the years as well and lead to net cash used for financing activities. Even though they issued a long-term debt, they still had an increase in payments and no issuance of common stock like the previous year. To conclude MGE's cash flows, the firm comes out with a decrease in cash of $28,204 (in thousands).

CONCLUSION

To conclude, we have looked into NorthWestern's characteristics including its history and its leadership, analyzed the market that NorthWestern is supplying its energy to, the characteristics inside the energy industry, and finally analyzed and compared the financial statements for both NorthWestern and MGE Energy. It is seen that NorthWestern is considered a financially sound firm. There were a few key factors that got my attention with NorthWestern Corporation. Compared with MGE energy, we see that NorthWestern not only came out more profitable in sales but also had a better cash conversion cycle, annual growth rate, and an increase in their cash flow chart. The CCC shows investors that NorthWestern can convert their sales into cash faster than MGE Energy. The annual growth rate shows that future values can be able to increase. Therefore, NorthWestern Corporation is financially sound when compared to MGE Energy.

APPENDIX A: SUMMARIZED HISTORICAL FINANCIAL STATEMENTS

NORTHWESTERN CORPORATION

INCOME STATEMENT	2021	2020	2019	2018	2017
Net Sales	1372316	1198670	1257910	1192009	1305652
Less: Cost of Goods Sold	425548	306190	318020	272883	410349
Gross Profit	946768	892480	939890	919126	895303
Other Operating Revenue	0	0	0	0	0
Less: Operating Expenses	671087	656276	663040	652854	623554
Operating Income	275681	236204	276850	266272	271749
Less: Interest Expense (no capitalized interest)	93674	96812	95068	91988	92263
Other Income (Expenses)	8252	4853	413	3966	-3415
Unusual or Infreq. Item; Gain (Loss)	0	0	0	0	0
Equity in Earnings of Assoc.; Profit (Loss)	0	0	0	0	0
Income before Taxes	190259	144245	182195	178250	176071
Less:Taxes Related to Operations	3419	-10970	-19925	-18710	13368
N.I. before Min. Ern.	186840	155215	202120	196960	162703
Minority Share of Earnings (Loss)	0	0	0	0	0
N.I. before Nonrecurring Items	186840	155215	202120	196960	162703
Oper. of Discontinued Segment; Income (Loss)	0	0	0	0	0
Disposal of Discont. Segment; Gain (Loss)	0	0	0	0	0
Extraordinary Item; Gain (Loss)	0	0	0	0	0
Cum. Effect of Acct Change; Gain (Loss)	0	0	0	0	0
Net Income (Loss)	186840	155215	202120	196960	162703

BALANCE SHEET	2021	2020	2019	2018	2017
ASSETS					
Current Assets:					
Cash	18762	17096	12070	15311	12029
Marketable Securities	0	0	0	0	0
Gross Receivables	198671	168229	167405	162373	182282
Less: Allowance for Bad Debts	0	0	0	0	0
Net Trade Receivables	198671	168229	167405	162373	182282
Inventories	80614	61010	53925	50815	52432
Prepaid Expenses	139748	62345	54432	38431	37669
Other Current Assets	0	0	13895	10755	11947
Total Current Assets	437795	308680	301727	277685	296359
Long-Term Assets:					
Net Tangible (Fixed) Assets (other than construction in	5247232	4952935	4700924	4521318	4358265
Construction in Progress	0	0	0	0	0
Intangible Assets	357586	357586	357586	357586	357586
Investments	0	0	0	0	0
Other Nonoperating Assets	737830	770248	550465	487787	408707
Other Operating Assets	0	0	0	0	0
Total Long-Term Assets	6342648	6080769	5608975	5366691	5124558
Total Assets	6780443	6389449	5910702	5644376	5420917
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	115237	100388	96690	87043	85160
Short Term Loans	0	100000	0	0	319556
Current Maturity of L.t. Debt	2875	2668	2476	2298	2133
Other Current Liabilities	261530	263367	235101	257668	225389
Total Current Liabilities	379642	466423	334267	347009	632238
Long-Term Liabilities:					
Long-term Debt	2553375	2330032	2250720	2122260	1815629
Reserves	0	0	0	0	0
Deferred Liabilities	499634	471777	447986	394618	340729
Minority Interest	0	0	0	0	0
Redeemable Preferred	0	0	0	0	0
Other Long-term Liabilities	1008079	1042122	838635	838107	833406
Total Long-term Liabilities	4061088	3843931	3537341	3354985	2989764
Total Liabilities	4440730	4310354	3871608	3701994	3622002
Shareholders' Equity:					
Preferred Equity	0	0	0	0	0
Common Equity-incl. Ret. Ern.	2339713	2079095	2039094	1942382	1798915
Total Equity	2339713	2079095	2039094	1942382	1798915
Total Liabilities and Equity	6780443	6389449	5910702	5644376	5420917

OTHER DATA	2021	2020	2019	2018	2017
Capitalized Interest	0.0	0.0	0.0	0.0	0.0
Interest Portion of Rentals	0.0	0.0	0.0	0.0	0.0
Liquidation Value of Pref. Stock	0.0	0.0	0.0	0.0	0.0
Dividends on Redeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends on Nonredeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends per Common Share	2.480	2.400	2.300	2.200	2.100
Total Cash Dividends	0.0	0.0	0.0	0.0	0.0
Dil. Earn. per Sh. before Nonrec. Ite	0.000	0.000	0.000	0.000	0.000
Market Price per Common Share	0.000	0.000	0.000	0.000	0.000
Tax Rate (0-1)	0.000	0.000	0.000	0.000	0.000
Common Shares Outstanding	51709.0	50559.0	50429.0	49985.0	48558.0
Diluted Weighted Average Common Share	3.6	3.1	4.0	3.9	3.3
Cash Flow from Operations	219978.0	352149.0	296720.0	381985.0	322738.0
Option expense:					
Net income not including opt. ex	0.0	0.0	0.0	0.0	0.0
Net income including opt. exp.	0.0	0.0	0.0	0.0	0.0

LIQUIDITY	2021	2020	2019	2018	2017
Days' Sales in Receivables	52.84	51.23	48.57	49.72	50.96
* Accounts Receivable Turnover	6.91	7.13	7.51	7.34	7.16
* A/R Turnover in Days	52.84	51.23	48.57	49.72	50.96
Days' Sales in Inventory	69.14	72.73	61.89	67.97	46.64
* Inventory Turnover	5.28	5.02	5.90	5.37	7.83
* Inventory Turnover in Days	69.14	72.73	61.89	67.97	46.64
* Operating Cycle	121.99	123.95	110.47	117.69	97.60
Working Capital	58,153	(157,743)	(32,540)	(69,324)	(335,879)
Current Ratio	1.15	0.66	0.90	0.80	0.47
Acid Test	0.57	0.40	0.54	0.51	0.31
Cash Ratio	0.05	0.04	0.04	0.04	0.02
* Sales to Working Capital	23.60	-7.60	-38.66	-17.19	-3.89
Cash Flow/Cur. Mat. of Debt & NP	76.51	3.43	119.84	166.22	1.00

LONG-TERM DEBT-PAYING ABILITY	2021	2020	2019	2018	2017
Times Interest Earned	3.03	2.49	2.92	2.94	2.91
Fixed Charge Coverage	3.03	2.49	2.92	2.94	2.91
Debt Ratio	65.49%	67.46%	65.50%	65.59%	66.82%
Debt/Equity	189.80%	207.32%	189.87%	190.59%	201.34%
Debt to Tangible Net Worth	224.04%	250.38%	230.25%	233.59%	251.30%
Cash Flow/Total Debt	4.95%	8.17%	7.66%	10.32%	8.91%
PROFITABILITY	2021	2020	2019	2018	2017
Net Profit Margin	13.61%	12.95%	16.07%	16.52%	12.46%
* Total Asset Turnover	0.20	0.19	0.21	0.21	0.24
* Return on Assets	2.76%	2.43%	3.42%	3.49%	3.00%
Operating Income Margin	20.09%	19.71%	22.01%	22.34%	20.81%
* Operating Asset Turnover	0.24	0.23	0.25	0.25	0.28
* Return on Operating Assets	4.85%	4.49%	5.53%	5.55%	5.84%
* Sales to Fixed Assets	0.26	0.24	0.27	0.26	0.30
* Return on Investment	4.38%	4.26%	5.33%	5.45%	5.32%
* Return on Total Equity	7.99%	7.47%	9.91%	10.14%	9.04%
* Return on Common Equity	7.99%	7.47%	9.91%	10.14%	9.04%
Gross Profit Margin	68.99%	74.46%	74.72%	77.11%	68.57%
INVESTOR ANALYSIS	2021	2020	2019	2018	2017
Degree of Financial Leverage	1.49	1.67	1.52	1.52	1.52
Earnings per Share	0.00	0.00	0.00	0.00	0.00
Price/Earnings Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Percentage of Earnings Retained	100.00%	100.00%	100.00%	100.00%	100.00%
Dividend Payout	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Dividend Yield					
Book Value per Share	45.25	41.12	40.43	38.86	37.05
Materiality of Options					
Oper. Cash Flow per Share	61,105.00	##########	74,552.76	97,445.15	96,628.14
Oper. Cash Flow/Cash Dividends					
Year-end Market Price					

APPENDIX B: SUMMARIZED HISTORICAL FINANCIAL STATEMENTS

MGE ENERGY

INCOME STATEMENT	2021	2020	2019	2018	2017
Net Sales	606584	538633	568855	559768	563099
Less: Cost of Goods Sold	193718	148264	173203	191916	188363
Gross Profit	412866	390369	395652	367852	374736
Other Operating Revenue	0	0	0	0	0
Less: Operating Expenses	295572	280372	284742	253645	250111
Operating Income	117294	109997	110910	114207	124625
Less: Interest Expense	24112	23521	23063	19609	19324
(no capitalized interest)					
Other Income (Expenses)	16694	25365	18811	17055	14399
Unusual or Infreq. Item;					
Gain (Loss)	0	0	0	0	0
Equity in Earnings of Assoc.;					
Profit (Loss)	0	0	0	0	0
Income before Taxes	109876	111841	106658	111653	119700
Less:Taxes Related to Operations	4115	19423	19784	27434	22094
N.I. before Min. Ern.	105761	92418	86874	84219	97606
Minority Share of Earnings (Loss)	0	0	0	0	0
N.I. before Nonrecurring Items	105761	92418	86874	84219	97606
Oper. of Discontinued Segment;					
Income (Loss)	0	0	0	0	0
Disposal of Discont. Segment;					
Gain (Loss)	0	0	0	0	0
Extraordinary Item;					
Gain (Loss)	0	0	0	0	0
Cum. Effect of Acct Change;					
Gain (Loss)	0	0	0	0	0
Net Income (Loss)	105761	92418	86874	84219	97606

BALANCE SHEET	2021	2020	2019	2018	2017
ASSETS					
Current Assets:					
Cash	17438	44738	23481	83102	107952
Marketable Securities	0	0	0	0	0
Gross Receivables	97111	76195	74321	78098	83139
Less: Allowance for Bad Debts	0	0	0	0	0
Net Trade Receivables	97111	76195	74321	78098	83139
Inventories	51960	47265	45282	41995	43793
Prepaid Expenses	20214	15179	16892	16215	26535
Other Current Assets	12648	26142	21665	21150	29212
Total Current Assets	199371	209519	181641	240560	290631
Long-Term Assets:					
Net Tangible (Fixed) Assets (other than construction in	1828171	1630286	1530199	1369766	1283313
Construction in Progress	50603	139099	112484	139671	58044
Intangible Assets	0	0	0	0	0
Investments	98754	94676	88492	78000	67772
Other Nonoperating Assets	0	0	0	0	0
Other Operating Assets	195007	180071	168848	160621	155422
Total Long-Term Assets	2172535	2044132	1900023	1748058	1564551
Total Assets	2371906	2253651	2081664	1988618	1855182
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	64149	54642	55161	46158	47645
Short Term Loans	5500	52500	0	13000	4000
Current Maturity of L.t. Debt	4889	4771	19659	4553	24452
Other Current Liabilities	43309	79013	54000	56917	50417
Total Current Liabilities	117847	190926	128820	120628	126514
Long-Term Liabilities:					
Long-term Debt	0	0	0	0	0
Reserves	0	0	0	0	0
Deferred Liabilities	0	0	0	0	0
Minority Interest	0	0	0	0	0
Redeemable Preferred	0	0	0	0	0
Other Long-term Liabilities	612380	567422	573427	558003	552320
Total Long-term Liabilities	612380	567422	573427	558003	552320
Total Liabilities	730227	758348	702247	678631	678834
Shareholders' Equity:					
Preferred Equity	614211	519303	523741	493343	398161
Common Equity-incl. Ret. Ern.	1027468	976000	855676	816644	778187
Total Equity	1641679	1495303	1379417	1309987	1176348
Total Liabilities and Equity	2371906	2253651	2081664	1988618	1855182

OTHER DATA	2021	2020	2019	2018	2017
Capitalized Interest	0.0	0.0	0.0	0.0	0.0
Interest Portion of Rentals	0.0	0.0	0.0	0.0	0.0
Liquidation Value of Pref. Stock	0.0	0.0	0.0	0.0	0.0
Dividends on Redeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends on Nonredeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends per Common Share	1.520	1.450	1.380	1.320	1.260
Total Cash Dividends	0.0	0.0	0.0	0.0	0.0
Dil. Earn. per Sh. before Nonrec. Ite	0.000	0.000	0.000	0.000	0.000
Market Price per Common Share	0.000	0.000	0.000	0.000	0.000
Tax Rate (0-1)	0.000	0.000	0.000	0.000	0.000
Common Shares Outstanding	0.0	0.0	0.0	0.0	0.0
Diluted Weighted Average Common Share	36167.0	35612.0	34668.0	34668.0	34668.0
Cash Flow from Operations	137527.0	172443.0	130475.0	153040.0	131373.0
Option expense:					
Net income not including opt. ex	0.0	0.0	0.0	0.0	0.0
Net income including opt. exp.	0.0	0.0	0.0	0.0	0.0

LIQUIDITY	2021	2020	2019	2018	2017
Days' Sales in Receivables	58.43	51.63	47.69	50.92	53.89
* Accounts Receivable Turnover	6.25	7.07	7.65	7.17	6.77
* A/R Turnover in Days	58.43	51.63	47.69	50.92	53.89
Days' Sales in Inventory	97.90	116.36	95.43	79.87	84.86
* Inventory Turnover	3.73	3.14	3.82	4.57	4.30
* Inventory Turnover in Days	97.90	116.36	95.43	79.87	84.86
* Operating Cycle	156.34	167.99	143.11	130.79	138.75
Working Capital	81,524	18,593	52,821	119,932	164,117
Current Ratio	1.69	1.10	1.41	1.99	2.30
Acid Test	0.97	0.63	0.76	1.34	1.51
Cash Ratio	0.15	0.23	0.18	0.69	0.85
* Sales to Working Capital	7.44	28.97	10.77	4.67	3.43
Cash Flow/Cur. Mat. of Debt & NP	13.24	3.01	6.64	8.72	4.62

LONG-TERM DEBT-PAYING ABILITY	2021	2020	2019	2018	2017
Times Interest Earned	5.56	5.75	5.62	6.69	7.19
Fixed Charge Coverage	5.56	5.75	5.62	6.69	7.19
Debt Ratio	30.79%	33.65%	33.73%	34.13%	36.59%
Debt/Equity	44.48%	50.72%	50.91%	51.80%	57.71%
Debt to Tangible Net Worth	44.48%	50.72%	50.91%	51.80%	57.71%
Cash Flow/Total Debt	18.83%	22.74%	18.58%	22.55%	19.35%
PROFITABILITY	2021	2020	2019	2018	2017
Net Profit Margin	17.44%	17.16%	15.27%	15.05%	17.33%
* Total Asset Turnover	0.26	0.24	0.27	0.28	0.30
* Return on Assets	4.46%	4.10%	4.17%	4.24%	5.26%
Operating Income Margin	19.34%	20.42%	19.50%	20.40%	22.13%
* Operating Asset Turnover	0.27	0.27	0.30	0.32	0.33
* Return on Operating Assets	5.28%	5.45%	5.90%	6.45%	7.21%
* Sales to Fixed Assets	0.33	0.33	0.37	0.41	0.44
* Return on Investment	5.76%	5.62%	5.63%	5.56%	6.76%
* Return on Total Equity	6.44%	6.18%	6.30%	6.43%	8.30%
* Return on Common Equity	10.29%	9.47%	10.15%	10.31%	12.54%
Gross Profit Margin	68.06%	72.47%	69.55%	65.72%	66.55%
INVESTOR ANALYSIS	2021	2020	2019	2018	2017
Degree of Financial Leverage	1.22	1.21	1.22	1.18	1.16
Earnings per Share	0.00	0.00	0.00	0.00	0.00
Price/Earnings Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Percentage of Earnings Retained	100.00%	100.00%	100.00%	100.00%	100.00%
Dividend Payout	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Dividend Yield					
Book Value per Share	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Materiality of Options					
Oper. Cash Flow per Share	3.80	4.84	3.76	4.41	3.79
Oper. Cash Flow/Cash Dividends					
Year-end Market Price					

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