

Sample ratio analysis assignment

Business



Valuation Ratios Comparing all the companies we have here, we know the sector value is 6.15, and we can see that Costco is has the largest number with 28.59, meaning that this company has big growth, and it is not risky. Along the other companies, we know that Target, Walmart, and Home Depot are doing well too. In this same case Nordstrom and Macy's are not doing so well, they are a little below average, so we can conclude they are not growing that fast, and they are tending to become a little risky.

Growth Rates

In our analysis we can see that companies that are doing better this year than last one are Costco, Target, and Walmart. They are as well above the average of the sector. The other companies such as Home Depot, Nordstrom, and Macy's are below average, meaning they had fewer sales than last year. We can see that Nordstrom and Target have 49 and 17 respectively compared to the sector of 15, making us understand that they have the most return of net income per share compared to the other companies and the whole sector. We can see that Home Depot, Costco, Walmart and Macy's are below average.

These companies haven't reached the average of the industry, throughout 5 years. Probably they have to do some operational changes to grow at better rates. Financial Strength Compared to the industry sector as a whole, the only company that is able to pay with cash its short-term obligations would be Nordstrom. All the other companies would be having trouble with this case, and would require to sell inventory as an example, and would take longer to pay. This assumption is made only if the companies are compared

to the industry sector; probably they are good in that situation seeing their own financial statements.

Nordstrom and Target are good compares to the industry sector. They have enough Current Assets to pay their Current Liabilities. Again, as in last analysis, we cannot infer that the other companies are bad because we are not seeing their financial statements. We can see in the numbers that Costco is below average compare to the industry. The other two companies that are right close to the mean are Home Depot and Walmart. The other companies have a lot of debt compared to their Equity. For example, Nordstrom has 227 in debt to 1 of equity. That is really high.

That high number usually means the company is risky, but as we saw before, Nordstrom has the ability to pay, but still uses a financial leverage.

Profitability Ratio While comparing the Gross Margin and Net profit Margin for the companies, it's clear that Nordstrom leads the chart as it has the highest Gross Margin ratio i. e. 36. 83 and Net Profit Margin Ratio i. e. 7. 4. These ratio's are the clear indication that Nordstorm's Cost of goods sold that includes variable and fixed costs directly linked to the product, such as material and labor is far lower than the sales.

Nordstorm has a greater efficiency in turning raw materials into income. Again the Net Profit Margin i. e. 7. 4 is highest for Nordstorm, which shows Nordstorm have higher sales price and low operating expenses. The High profit Ratio highlights that Nordstorm is a company that believes in higher quality standards and not into wholesale business as the net sales of company is less as compared with other companies. On a contrary, Costco

has the Lowest Gross Margin (12.39) i. e. below industry standards (12.5) and net profit margin (1.77) that is a alarming sign for the company to improve its profitability through either increasing sales or reducing expenses. Again Macy's has the highest Gross Margin (40.39) but Low Net profit Margin (3.07), which represents Macy's as having high operating expenses that needs to be considered. Management Effectiveness Return on Assets (ROA) is an important ratio for companies to measure the how well the company utilizes its own assets to generate after tax revenue, also including interest expenses.

A high ratio indicates that the firm is efficiently utilizing whatever assets they have whereas a low ratio indicates the opposite. The average ratio for the retail sector stands at 2.17, out the six companies selected in this report, Nordstrom is clearly the leader with a ratio of 11.25 meaning that they managed to generate the worth of all their assets 11 times over in the last financial year in comparison to Macy's, which has the lowest ratio of the selection with only 2.85. Another key ratio to gauge how effectively the management is utilizing its resources is the Return on Investment (ROI) ratio.

This indicator shows how successful the firm is at generating profit from its investments. Typically, its expected that whatever investment the firm makes, would be successful enough to pay for itself and make a profit. The industry standard for this sector is 3.47. The six companies in this report are all above average with Nordstrom in the lead with 15.97 and the lowest being Macy's with only 3.55, which is barely above the industry average.

The Return on Equity (ROE) also referred to as Stockholder's return on investment, shows the rate that shareholders are earning on their shares.

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Firms that create high returns in relation to their shareholder's equity are firms that provide their shareholders considerable pay offs, creating sizeable assets for each dollar invested. Of the six firms in question, Nordstrom yet again leads with a ratio of 42. 16, seven times the sector's average of 6. 07. Macy's again has the lowest ratio with only 8. 2. Based on the three ratios this report has used to measure the Management Effectiveness, Nordstrom is definitely in the lead. The ratio shows that Nordstrom most effectively maximizes its assets to contribute to its bottom line. Furthermore Nordstrom also leads in regard to the ROI ratio, providing its shareholders with 42 times the equity they put in to the firm. Also, Nordstrom is more capable in managing its investments in comparison to the other six firms. However, this could also mean that Nordstrom is more conservative in its investments and more risk averse. Also, since there is no figure to be found for Costco's ROI ratio it would be unfair to conclude with 100% certainty that Nordstrom is the most effective.

However, considering the other ratios involved in Management Effectiveness, Nordstrom definitely leads hands down. Efficiency Walmart (131. 11) and Costco (111. 2) have about 20 times the average receivable Turnover (RT) ratio of the sector (5. 46). This shows that it takes Walmart 2. 78 days and Costco 3. 28 days to receive payment for the goods it sold while the average for the sector is 66. 85 days. Conclusion: Walmart and Costco are highly efficient in collecting the payment; we can see from the numbers that they run high on cash basis comparing to the whole sector.

In terms of inventory turnover turnover, Costco (14. 38) and Walmart (8. 63) lead with the highest ratio. Which means that inventory sat on Costco's

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shelves for an average 25 days and Walmart's for 42 days while it's about 78 days in an average retail store. Conclusion: Walmart and Costco move quickly merchandise through the warehouse to customers. While all the six companies are far above the sector average in regards to asset turnover, the relatively high asset turnover ratios of Costco and Walmart show that they use their asset more efficiently than their peers.