# Free report on financial analysis of abbott and its competitors

Business, Company

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introduction

Financial performance of the company is one of the main indicators that influence the investors to decide whether to invest in the company or not. Financial performances of different companies are analyzed using financial ratios. By using financial ratios, investors are able to analyze how different companies have rewarded the investors and these ratios are also used to predict the future trend as well. Therefore these ratios are widely and consistently used by investors.

This report analyzes the financial performances of Abbott which is a pharmaceutical company. In order to analyze the performance of Abbott, the performances of its competitors are also analyzed so that the performance of

Abbott can be compared with its competitors; GlaxoSmithKline, Pfizer, and Sanofi.

There are different financial ratios that are used by investors to analyze the performance of the company, however this report uses some of the most important financial ratios particularly profitability ratios in order to compare the performance of Abbott against its competitors.

## Operating profit margin

Operating profit margin is one of the ratios that have been used to analyze the performance. The following table shows the operating profit margin of Abbott and other three competitors as well as the industry average which is calculated by taking the average of these four companies.
The average of operating profit margin is found to be 20. 7% from 2007 to 2011. Among these three companies, GSK has performed the best as the operating profit margin of GSK is the highest in comparison to the other two companies. Abbott has the least average among these three companies with 17. 88%. The highest operating profit margin of Abbott was reported in the year 2009 where the company recorded 20. 3% however since then it has been declining.

## Net Profit Margin

Net profit margin shows the percentage of profits that the company has made on the total revenue it accumulated in the year (McLaney, 2009). Net profit margins of GSK, Abbott, Pfizer, and Sanofi from 2007 to 2011 are shown below:

The average net profit margins of three companies are found to be 16. 02%. Abbott and Pfizer have reported net profit margin below the industry average and Abbott has the lowest average net profit margin. Therefore it shows that Abbott has underperformed in comparison to other players in the industry. Abbott has reported the highest net profit margin in the year 2009 where the ratio increased as high as 18. 68%. In the same year, net profit margin of Sanofi was below Abbott and it shows that Abbott outperformed Sanofi in 2009 but in rest of the years, Sanofi has reported higher net profit margins than Abbott.

## Earnings Per share

The other financial ratio that has been used to compare the performance of Abbott and its competitors is the earnings per share. Earnings per share show the earnings or returns that a shareholder has received for having one share of the company (Houston, and Brigham, 2009). Earnings per share of three companies under study since 2007 are shown in the table below: Earnings per share of three companies have shown an average of 2. 22 per share. GSK has the least earnings per share ratio whereas Sanofi pays the highest returns to its shareholders. However Abbott has performed above average in terms of EPS.

## Asset Turnover

Asset turnover ratio shows how the company has utilized its total assets in generating revenue (Gitman, 2003). The total assets turnover of three companies show an average of 0. 53 and among these three companies GSK has the highest turnover ratio with 0. 70. Pfizer and Sanofi have too many assets in comparison to the revenue it has generated and thus have lowest assets turnover ratio. Abbott has reported above average turnover ratio and thus it can be said that it has performed comparatively better than industry but still it can improve as GSK has a higher ratio.

## Return on assets

Return on assets highlights the profits that the company has generated from its total assets (Besley, & Brigham, 2007). Abbott has been able to perform appropriately as it has a return on assets higher than of industry. GSK has outperformed the industry whereas Pfizer and Sanofi have not been able to perform up to the mark and it shows that Pfizer and Sanofi have too many assets piled up and it is not able to generate sufficient profits.

## Return on equity

Return on equity shows the returns that the company is able to make from the equity of the shareholders (Besley, & Brigham, 2007). Returns on equity of three companies along with the industry average are shown in the table below:

The average return on equity is found to be 23. 94% however the average return on equity of GSK is found to be 49. 71%. Although the returns of GSK have decreased drastically but still the company has managed to report an average returns on equity of almost 50%. On the other hand, Abbott has been able to show an average of almost 24% returns on the investment of the shareholders, which is however below than the average returns of the industry. Sanofi has not been able to perform up to the average and has reported an average of only 10. 57% returns. Similar is the case with Pfizer who has shown the average of 11. 60%.

## Recommendations for INVESTORS

Financial ratios reveal that GSK has performed the best among all the companies as the operating profit margin, net profit margin, return on assets and return on equity of GSK have been the best in comparison to the other two companies. Although GSK has not been able to improve its earnings per share in comparison to the other companies however with improving profits, EPS can be expected to increase in the years to come. Moreover, EPS of the company increased in the year 2011 in comparison to the year 2010 as EPS jumped from 0. 32 to 1. 03.

With the changes in the environment investors have been analyzing much more than just the financial performances of the companies. Investors have been analyzing how much the company returns back to the community or the society and what sort of investment the company is making for sustainability development and how ethical the company has been performing (Brealey, 2007). Some investors prefer investing in firms that are more ethical in their approach and contribute more to the society in comparison to the companies that report higher returns (Brealey, 2007). Pharmaceutical companies have started making investment on CSR and towards sustainability development. One example is of Abbott which has been increasingly investing on CSR activities. Abbott has been awarded different awards such as Asian CSR Award for Leadership in Science Education (Abbott Laboratories, 2011) , Global citizenship award (Abbott

Laboratories, 2013b), Top Employer in the year 2011 in Spain, Great places to work at in Australia in the year 2012, in Denmark in 2011, in Japan for 2012 and 2011, in Korea for 2011 and many other awards (Abbott Laboratories, 2013a). Moreover, Abbott has been ranked as the 29th most respected companies around the world (Abbott Laboratories, 2013c). Therefore, Abbott can be a good option for investors as the company has performed below the average in comparison to the returns of other companies but the company has been contributing back to the society and community as well as it has been operating ethically. Thus, investment in Abbott would be a good option.

## Conclusion

The report presented the financial analysis of Abbott and compared the financial performance of the company against three of its major competitors; GlaxoSmithKline, Pfizer, and Sanofi. The report revealed that Abbott has not been able to report as much profits as the other companies however still the company has been increasing investment on the society and community and is taking care of its employees and this is the reason why it has been able to receive so many awards.

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