Free research paper on intel corporation financial analysis for the years 2009, 2...

Business, Company

- Part One: The balance sheet

- The summary of the three largest assets for the three financial years (2009, 2010, and 2012) are explained by the first tab in the excel sheet with the tab name 3 largest assets. The largest asset for three consecutive years was from the category property, plant and equipments. The respective values for the years 2009, 2010, and 2011 were $17, 225 million, $17, 899, and $23, 627. In 2009, the property, plant and equipment comprised 32. 4% of total assets. The other two years it comprised 28. 3% and 33. 2% for years 2010 and 2011 respectively. Goodwill, short-term investments, and other long-term assets comprised the second largest category of assets for the years 2011, 2010, and 2009 respectively. The respective values were $9, 254 million, $11, 294 million, and $5, 340 million in that order. The third largest assets in 2011, 2010, and 2009 were Identified intangible assets, cash & cash equivalents, and short-term investments with values $6, 267 million, $5, 498, million, and $5, 295 million respectively. It is expected (and normal) for a company such as Intel to have the largest proportion of its assets being property, plant, and equipment. This category further comprises buildings, equipments in manufacturing, plant, land, and machinery. These types of assets are in long-term nature and cannot easily be liquidated.

- The summaries of three largest liabilities are provided by the second tab christened 3 largest liabilities. The largest liabilities in2009 and 2010 was Accrued compensation and benefits and comprised 46% of total liabilities and stockholders’ equity for each of the years. In 2011, Long-term debt was the largest liability and it comprised 10% of total liabilities and stockholders’ equity. Second largest liabilities for the years 2009, 2010, and 2011 were

Long-term debt, other accrued liabilities, and other long-term liabilities in the same respective order. The third largest liability was Accounts payables for each of the three years. It comprised 3. 5%, 4. 7%, and 4. 2% of the total liabilities and stockholders' equity for the years 2009, 2010, and 2011 respectively.

- Contributed capital encompasses capital that was raised through direct purchase of stock from the company by investors. Contributed capital for Intel Corporation was $14, 993 million, $16, 178 million, and $17, 036 million for the years 2009, 2010, and 2011 respectively. Earned capital on the other hand was $26, 711 million, $33, 252 million, and $ 28, 875 million for the years 2009, 2010, and 2011 respectively. Earned capital is the total value of assets for the company acquired through profitable operations over the years. Retained earnings comprise earned capital.

- Part two: Changes to the Balance Sheet

- Cash and cash equivalents increased by 19% in 2009 to reach $3, 987 million from $3. 350 million in 2008. In the following two years, it increased by 37. 9% then reduced by 7. 9% respectively. From the analysis of financial statements, net income in 2010 increased considerably in larger proportion than respective accounts receivables. Since net income is an element in calculation of cash and cash equivalents, we conclude that this is the probable cause of the sharp rise of cash in 2010. We however should assume that other factors affecting the profit and loss account did not change significantly.

- The changes in cash and cash equivalent for the two out of the three years are considered significant because the changes are greater than 10%. The

respective years are 2009 and 2010 where cash increase by 19% and 37. 9% respectively. In 2011, the cash reduced by 7. 9% which is below a change of 10% thereby considered insignificant.

- Retained earnings increased by 25. 1% in 2009 from $26, 318 million to $32, 919 million in 2010. It however reduced by 9. 9% in 2011 to become $29, 656 million. The reduction in retained earnings was partly caused by Accumulated other comprehensive loss. This resulted from the translation adjustment loss realized during the acquisition of McAfee, Inc in the first quarter of 2011.

- Part Three: The Income Statement

- The respective details of calculations are in the excel spreadsheet on the tab Gross profit percentages.

- Cost of sales and gross profit percentages

There are two gross profit percentages explained in this context; the mar-up percentage and the Gross margin percentage.

- Mark-up percentage: Mark-up percentage may be used to indicate the increase from the original price

Mark-up percentage = gross profit/Cost of goods sold X100%

- Gross margin percentage

The gross margin represents the proportion of the gross profit to net sales. It is calculated by dividing the gross profit by net sales as shown below

Gross margin percentage = Gross profit/net sales X100%

- Discussion and analysis

The percentage of gross profit to the total sales is a ratio also known as

gross profit margin. This percentage is a profitability ratio usually used by entrepreneurs to establish the proportion per sale that is retained by the business after deducting the cost of sales but before deducting operating expenses. For example in 2011, the gross margin percentage was 62. 5% this indicate that for every $1 of sale, $0. 625 comprised the gross profit. The remaining $0. 375 comprised cost of purchases and raw materials for production. The highest gross margin for the three years was in 2010 with the value 65. 3%. This figure indicates that the company had a better control in the buying materials and goods for resale in 2010 to realize the lowest cost of production.

- Largest expenses over the for the three years: Below is a summary of two largest expenses

- Combined percentages: The two largest expenses are summarized in the tab 2 largest expenses in the spread sheet. According to the calculations in that tab, the two largest expenses for 2009, 2010, and 2011 comprised 38. 7%, 29. 6%, and 29. 7% of total sales respectively.

- Part Four- The statement of cash flows

(7th tab in the excel sheet with name statement of cash flows)

- Cash flow from operating activities for years 2009, 2010, and 2011 has been positive throughout. The year Intel Corporation had the largest amount of cash flow from operating activities was in 2011; cash flow from operating activities for that year was $ 20, 963 million. The second and third were in the years 2010 and 2009 with values $16, 692 million and $ 11, 170 million respectively.

- The 2009 cash figure increased by 2. 2% as compared to the 2008 figure.

The 2011 and 2010 changes in cash were significant. Cash increased by 49. 4% to reach $16, 692 million from $ 11, 170 million. In the subsequent year (2011), cash had increased to $ 20, 963 million from $16, 692 million indicating 25. 6% increase.

- Cash flow from investing activities been negative throughout the three year period. The highest value being $10, 539 million was recorded in 2010. The second largest and third were recorded in 2011 and 2009 with values $10, 301 million and $7, 965 million respectively.

- Discussion and analysis of part four

Items in the operating activities comprise the largest proportion of the cash inflows for the entire three year period. The change in net income from $ 4, 369 million 2009 to $ 11, 464 million in 2010 was the main cause of the largest change of cash inflows for the three years. The percentage change for this period was 49. 4% (2009-2010).

The negative cash flows experienced for each of the three years is mainly attributed to purchases in additional plant, property, and equipments and purchases of available for sale investments. Purchases of trading assets also are observed to significantly contribute to the negative cash flows with different impacts to each of the three years. The largest cash outflow for the three years was in 2010 when the company spent $17, 675 million.

- Part Five: Financial analysis

- Profit margin

The profit margin is calculated by dividing the net income with net revenue.

Profit margin = net income/net revenue X100%

This is a profitability ratio and it measures the control of a company over its cost of sales. The profit margins for the three subsequent years were 12. 4%, 26. 3%, and 24% for the years 2009, 2010, and 2010. The 2010 profit margin of 26. 3 percent indicate that approximately 26. 3% of the sales revenue was retained as profit to the company. It can be broken down to represent an amount of $0. 263 being retained by the company as profit for every $1 sale. Intel made the highest profit margin in 2010 indicating that it had the best control of its cost of sales; that is because the cost of sales per dollar was kept at the minimum than any of the other two years.

- Debt-to-capital ratio and Debt-equity ratio

Debt-to-equity ratio, just like debt-equity ratio, is used to establish the company’s leverage. Debt-to-capital ratio is calculated by dividing total debt with total capital while debt-equity ratio is calculated by dividing total debt by total shareholders’ equity.

Debt-to-capital ratio = total debt/ (debt + equity)

Debt-equity ratio = total debt/ total shareholders’ equity

Debt-to-capital ratio helps stakeholders know the financing structure of a company. A high Debt-to-capital ratio (especially higher than the industry average) implies that a company has more debt and this increases the risk of default.

Intel Corporation Debt-to-capital ratio for years 2009, 2010, and 2011 was 21. 5%, 21. 8%, and 35. 4% respectively. The 2011 Debt-to-capital ratio was

highest implying that for that year, total capital comprised 35. 4% debt and 64. 6% equity. In case the company gets liquidated and all the assets are sold at their current book value, then about 64. 6% of the total proceeds will be attributable to the shareholders while the remaining 35. 4% will be paid to creditors. It further implies that majority of the company's capital is financed equity.

- Return on assets

Return on assets (ROA) is calculated by dividing the net income with total assets.

Return on assets (ROA) = Net income/ Total assets

ROA is used to gauge the management efficiency in using the company's assets to generate profits. A higher ROA in an industry with companies that have similar capital structure is an indicator that the managers in the company with higher ROA are able to convert their little investments into higher profits.

Our observation from the computed ratios indicates that Intel Corporation is recording an increasing trend in its ROA, which further translates to an increasing efficiency. ROA for the years 2009, 2010, and 2011 was 8. 2%, 18. 1%, and 18. 2% respectively. It is important to have ROA from other companies in the same industry and with same capital structure before determining whether a company is efficient or not; a comparison is absolutely important.

- Value of Intel Corporation as an investment

The three ratios discuss above give an analysis of the main factors an investor consider before deciding on whether to invest in the company or

not. These main factors include; company profitability, leverage, and efficiency of operation. The profit margin of Intel Corporation is encouraging and seems it has the potential to continue increasing its profit margin. The profit margin of 24% in 2011 for example indicates the company was able to retain $0. 24 out of every $1 sale. The debt-to-capital ratios for the three years exhibit a strong standing because a larger proportion of capital is financed by equity. There is no available data of other company in the industry for ROA comparison purpose but the 18. 2% in 2011 (and likelihood of further improving) is an indicator of high management efficiency. Intel Corporation is undoubtedly an ideal company to invest in based on the financial analysis in the context.

References

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