Good essay about financial analysis

Business, Company

Step 1:

b) Below provided are the Financial Statements of the company:

I Income Statement:

ii) Balance Sheet:

iii) Cash Flow Statement:

iv) Ratio Analysis:

In order to unearth the real financial position of the company we will be conducting the ratio analysis of the company, where we look into the liquidity, solvency, profitability and efficiency of the company:

-Liquidity Ratios:

Also known as Pure Balance Sheet Ratios, these ratios indicate the short term solvency of the firm, i. e. if the firm is capable enough to honor its short term commitments. Below provided are the two liquidity ratios of the company and the related trend:

i)Current Ratio: Current Assets/ Current Liabilities

ii) Quick Ratio: (Current Assets- Inventory)/ Current Liabilities

-Profitability Analysis:

These ratios carry great significance as they indicate the level of profit margins being earned by an entity from their business activities. These ratios have the capability to influence the investor’s investment decision. Below discussed are two prominent profitability ratios

i)Net Income Margin: Net Income/ Revenue

ii) Return on Equity: Net Income/ Total Equity

-Solvency Analysis:

These ratios indicate the long term solvency position of the firm, i. e. its

ability to honor its debt obligations. In an in-depth analysis, it unearths the capital structure composition of the company, i. e. what percentage of financing is sourced from Debt and Equity. Below calculated are some of the solvency ratios of the company:

i)Debt-Equity Ratio: Debt/ Equity

ii) Interest Coverage Ratio: EBIT/ Interest Expense

-Efficiency Ratios:

Also known as Asset Management Ratios, these ratios indicate the management’s efficiency to use the assets of the company to generate revenue.

i) Inventory Turnover Ratios: COGS/ Inventory

Conclusion: Ratio Analysis

Referring to the above calculations, we can infer that the year 2013 was indeed a good financial year for the company. As for Liquidity ratios, both the current ratio and quick ratio are in increasing trend indicating that the company has strong liquidity roots. As for the profitability ratios, the net margins of the company have improved from 15. 08% to 16. 05%. Even the shareholders of the company will be ecstatic to experience improvement in ROE multiple from 26. 1% to 28. 17%. As for solvency ratios, although the interest coverage ratio of the company has declined from 11. 54 to 9. 1, however, this seems to be in line with the decreased Debt-Equity ratio of the company. Thus, overall, the company indeed have strong solvency. However, the management might be concerned with the declined inventory turnover ratio from 3. 02 to 2. 94. This indicates that during 2013, the capital was tied up in inventory for the longer period of time.

Step 2)

a) Stock Valuation:

i) Constant - growth model equation:

Also known as Gordon Growth Model, the formula of the model helps in determining the intrinsic price of the stock:

Value of Stock: Dividend (1+Growth Rate)/ (Cost of Equity- Growth Rate)

ii) Dividend Growth Rate:

As a general followed practice in the financial literature, we are calculating the average dividend growth rate of the company for five years:

iii) The company do not have any preferred stock.

Part B:

i) Year- by - year stock return calculations:

ii) For the purpose of calculating beta of the stock, we will be using the covariance between return of given company and S&P 500 for the period of 5 years(2009-2013) using excel functions:

Beta= 0. 73644

iii) For the purpose of calculating standard deviation, we will be using excel functions:

Standard Deviation= 0. 054957

Part C:

WACC= Weight of Debt* Cost of Debt(1-tax rate) + Weight of equity* Cost of Equity

Cost of Equity= RFR+ Beta(Market Risk Premium)

Cost of Equity= 2. 39+ 0. 73644(5. 75)

= 6. 62%

Cost of Debt= 3. 99%

Tax Rate= 24. 75%

WACC= . 47638* . 0399(1-. 2475)+ . 5236106* 0. 0662

= 0. 01900+ . 03466

= 5. 366%

Works Cited

Lyford, M. (2014). Becton, Dickinson & Co.: Investment Report. Unioversity of Oregon.