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History and Overview:

Headquartered in San Jose, California, Adobe Inc is a multinational computer software company. The chief operations of the company include development of multimedia and creative software products along with rich internet application software development.

The company was founded in the year 1982 by John Warnock and Charles Geschke, both of whom were employees of Xerox PARC. The very first product launched by the company was Post Script followed by Digital Fonts. However, the very first consumer software launched by the company was Adobe Illustrator which was a vector based drawing programme designed especially for Apple Macintosh. Today, the company offers number of consumer software as PDF Reader, Photoshop, Sound booth, to name a few.

Financial Performance:

i) Balance Sheet:

ii) Income Statement:

Key Performance Ratios:

i) Liquidity Ratios:

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Quick Ratio: $\frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$

Analysis:

Forming a major representation for the liquidity position of the company, both Current Ratio and Quick Ratio provides us with an important information. During 2013, the current ratio of the company was 2.65 while

the industrial average was 3. 1.

The results were unchanged even on comparing with the stringent measure of liquidity, i. e. Quick Ratio. During 2013, the quick ratio of the company was 2. 47 while the industry average was 2. 66.

This indicates that Adobe System Inc has lower liquidity than that of industrial average.

ii)Profitability Analysis:

Net Profit Margin= (Net Profit/Sales)

Return on Equity: (Net Income/ Total Equity)

Analysis:

Our profitability analysis indicates that Adobe System Inc has been earning low profit margins in comparison to the industrial average. While Adobe Inc has a net profit margin of 15. 86%, the margins earned by the industry on an average is 21. 29%.

Furthermore, even the equity-holders will not be happy to see that even the Return on Equity offered by the company is lower than the industrial average. The 5 year average ROE of Adobe was 11. 31%, while that of Industry was 21. 73%

iii)Solvency Analysis:

Debt-Equity Ratio: Debt/Equity

Interest Coverage Ratio: EBIT/Interest Expense

Analysis:

The above graphs and figures indicates that although Atkins has lower debt equity in relation to the industrial average, indicating that the company is

operating under lower financial distress. However, the major concern is the low interest coverage ratio of the company. During 2013, the Interest Coverage Ratio of the company was merely 6 in comparison to 17.07 of the industry. This indicates that Adobe has lower stability to pay off its interest obligations.

iv) Efficiency Ratios:

Asset Turnover Ratio: Revenue/ Total Assets

Analysis:

Referring to the asset turnover ratio comparison between Adobe and Industrial Averages, we can conclude that the company has been running marginally low on generating revenues from its assets. This is because while the Asset Turnover Ratio of the company is 0.40, the industrial average is 0.44. This indicates inefficiency of the management of the company to generate revenue from the available assets.

Market Ratios relative to Industry:

Stock Performance:

At the time of writing, the stock of the company was trading at \$64.48. Over the period analysis (2012-2013), the stock of the company has consistently increased. The company achieved its maximum high price during February this year, while the lowest price was seen during June 2012. As per the expectations of the analyst, stock is under the 52 week range of \$41.91-\$71.10.

Credit Ratings of Debt:

At present the company have two bonds issued with the following characteristics:

The credit rating of Baa1 is assigned by credit rating agency Moody.

Dividend History:

Stock Valuation: Dividend Discount Model

The dividend discount model(DDM) is based on the rationale that the intrinsic value of the stock is the present value of its future dividends. The formula for calculating the intrinsic valuation of the stock is:

$$V = \text{Current Dividend} * (1 + \text{growth rate}) / (1 + \text{Cost of Equity})$$

However, since Adobe Inc has not paid dividend after 2005, valuation of the company on such basis is not possible as we cannot ascertain a certain growth rate in dividends in the absence of dividends.

Works Cited

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CSI Market. Adobe Systems Incorporated Valuation Comparisons. 23 April 2014 .

Moody. 22 April 2014 .

Yahoo Finance. Adobe System Inc. 22 April 2014 .

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