Example of using company and analysis from group assignment report

Business, Company

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Introductory Scenario

Management of investment and portfolio is more than essential for an organization as well as for the individuals, as it is the only thing that enables them to bring both financial and non financial effectiveness to them. There are certain models that specifically used for the purpose of financial analysis and forecasting, and effective compliance is essential from their side (Hendry & Ericsson, 2001).

Investors and shareholders always concerned with the financial position of the organization, along with its current share movements. The share movements would then be subjected to the enhancement of effectiveness for them. Shareholders are usually known as the real managers of the company because they have the highest amount of risk associated with the company, and entities always required to enhance their satisfaction as they have the idea that without the shareholders they cannot enhance their financial belongings appropriately. Most of the times, organizations mention about their forecasted investment and forecasted statement in their financial document, merely to enhance the level of satisfaction among their shareholders (Lee, Lee & Lee, 2009)

Forecasted financial performance usually leads to analyze the core value of the firm, and it is also related to the share performance of the companies. This assignment is an ongoing part of the previous group assignment in which the financial performance of Cochlear has been analyzed accordingly. Now, there are two parts that needed to be complete in this part as well. Cochlear is a biotechnological company that designs, manufacture and then supplies the Nucleus Cochlear implant and conduction based implant. It is a company specifically traded on the Australian Stock Exchange (ASX). From the group assignment, it is clear that the financial position of the company is effective and sound, as most of the financial ratios are in the favor of the company, and the company is advised to accomplish the same growth in their future as well.

Analysis & Findings

Prospective Analysis

This is the first part of this assignment, in which the prospective of the chosen company would have been analyzed accordingly. It is required to forecast the value of the firm through effective valuation methods and models, which also includes the common stock and share analysis of the company. Apart from this, it is also required to have a sensitivity analysis as well on the share movement of the company.

Income Statement Forecasting

Income statement is one of the most important elements that found in the financial statement which has number of options and information that will be used for the decision making. Income statement has revenue element, and other important aspects that will be taken into account for the analysis purpose. The revenue of the company generated in the year 2011 was AUD 809 million which went on a level of 778 million in year 2012, and then decreased again by 3. 3%. Though, from the financial analysis project, it is found that the financial position of Cochlear is effective and powerful, but still the company needs numerous things numerous things to be opted upon (Niemira & Klein, 1994).

Same amount of proportion has been selected for the future analysis, and it is found that the revenue of the company will decreased in the upcoming years by the same percentage. Five years of time period has been taken into account for this analysis, and it is found that the revenue recognition of the company would decrease each year with the same percentage. The revenue of the company would be AUD 778. 33 million, 752. 65 million, 727. 81 million, 703. 79 million and 680. 57 million in the year 2015, 2016, 2017, 2018 and 2019 respectively. From this particular analysis, it is clear that the company will not be in the same congestion of financial prosperity in the future, as the financial competiveness of the company will be decreasing each year with regular percentages. Apart from that, Gross Profit of the company would also decrease with the same proportion in the upcoming five years of time period.

Balance Sheet Forecasting Analysis

Balance Sheet is an important document that found in a financial statement. It is usually mentioned for analyzing the financial position of an organization. Financial position is more than essential for the sake of an organization; in fact it is equally beneficial for the shareholders of a company as well. Shareholders will usually look upon some of the dominating figures of the company, like total assets, liabilities, current ratio and the equity amount (Niemira & Klein, 1994).

The total number of assets of the company actually decreased in the financial year 2013 by 20% and then decreased by 14% in the year 2014. Cumulative, it is an increment of only 4. 3%, which has been taken into consideration for the analysis of the next five years. The total assets of the company increased to a level of 550 million in the year 2015 and then moved to a level of AUD 656 million by the year 2019 with the same amount of increment of 4. 5%. It is a sign of effectiveness for the company that their assets are increasing with a regular percentage. This is showing that the company will grow substantially well in the future as well with the help of increasing asset provision (Siegel & Shim, 2000).

Apart from the assets, the essences of liabilities are effective as well. The amount of liabilities of the company actually increased in every year which is not an effective sign for the company, because it increases the level of debt in the company. The liabilities of the company increasing heavily, and they will post possible threat for them in the future. For the next five years, the amount of liabilities of the company would be increasing, and it will possess problem and threats for the shareholders. On the other side of liability, the equity of the company is also decreasing considerably which is a negative sign for the shareholders. The company has to consider increasing the level of their equity; otherwise it would be extremely difficult for them to manage the things accordingly

Cash Flow Forecasting Analysis

Likewise income statement and balance sheet, cash flow is yet another important tool that found in a financial statement. It has the information of cash inflow and cash outflow of the company, and shareholders are very much concerned with such information (Siegel & Shim, 2000). If the amount of the cash inflow of the company is higher than the cash outflow, then it will enhance the level of satisfaction among the shareholders. The operating cash flow of the company is increasing every year with a regular amount of percentage, and it will remain in the same jurisdiction for a certain time period, because the company has a good increment in their net income and revenue recognition as well.

Market Valuation

Market valuation is one of the most important aspects for an organization, as well as for the shareholders, and it is the things through which the shareholders can analyze the actual share price of the company. With the help of market evaluation, shareholders can get an idea regarding the most effective figure of the share price of the company on which it should be traded (Siegel & Shim, 2000). It basically analyzes the difference among the actual trading price and potential trading price of the share of the company. For this purpose there is a method named as Dividend Discount Model (DDM) would be used, through which the potential value of the shares of the company would be analyzed accordingly.

P = D / Ke – g

= 1. 27 / 14% - 12%

= 1. 27 / 2%

P = 63. 5$

The actual price of trading of Cochlear Company is 70 $ while the price of the stock of the company according to the valuation model is $ 63. 5, which is showing that the company is trading overrated. The shares of the company are over estimated, and it is recommended to the shareholders to initiate a short selling strategy in their function and operation otherwise it would be difficult for them to sustain in the business. Soon the company will be on the same actual level of their shares.

Application

Without any doubt or two angles, management of an organization is looking forward to enhance the productivity of the company, especially from the financial viewpoint. The reason behind the same is that it is the only thing and aspect through which an organization can compete with other organizations operating in the same line of business. One of the reasons behind managing the operations of the company is to explore their earnings and enhance their productivity.

Likewise other companies, the management of Cochlear is also familiar with the fact that financial productivity is essential for them; otherwise the chances of the company to explore their earnings and enhance the level of shareholders would be blurred in the future. From the entire analysis from the group assignment of the company, and from the financial forecasting of this assignment that the financial position of the company is not effective and organized, and there is a need to provide some strong recommendations to them to pull them out from this situation. Some of the major issues found in the management of their operations and cost, while other associated with the management of their investment in an effective and organized manner. The recommendations to strengthen the operations of the company are as follows

- There is a need to decrease the level of cost of the company, because the direct cost association of the company is extremely high, which is decreasing the net revenue of the company, and also the bottom line of the company. The current proportion of cost of goods sold to revenue of the company is over 75%, which should be decreased to a level of nearly 60%
- The company has a very low amount of interest and other income proportion that needed to be increased accordingly, if they really wish to sustain accordingly
- The amount of liabilities of the company is actually decreasing each year, which should have been decreased for the sake of the shareholders. This particular thing in is not in the favor of the company. The company is surely breaching the contract of restrictive covenants which are not doing an effective job for the shareholders of the company. The company has to

decrease the price of liabilities and have to increase the amount of their equity in a best possible manner.

Conclusion

Cochlear Limited is an Australian Company that comes under the umbrella of Bio-Technology. The companies located in Sydney, Australia and have its operations in 25 different countries of the world. The company earned net revenue of A$ 752 million in the year 2013, and it is an economically sound company. From this analysis, it is found that the though the financial position of Cochlear is effective, however there are certain aspects that are not in the favor of the company. The company has to get aware with these things accordingly, and have to use the recommendations in an effective manner. Shareholders are not advised to buy the shares of the company at this time because the shares of the company are overrated; however financial forecast is in the favor of the company as well as the shareholders.

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