

Good report on financial statements analysis

[Business](#), [Company](#)



Introduction

The aim of every business executive is to make a company successful. They go beyond their ways to implement strategic and management techniques to achieve this. However, most management advice and strategies that companies use are quite unreliable and impractical. Only a few tend to adopt strategies that work for them. The difference in strategies is what leads to different financial position of companies. Some companies therefore end up being better than others. This could be in the name of market share, innovation or even recognition. In the end, some companies stand out than the others. This report is aimed at analyzing three companies and determining which of them will be more successful in the future. We went to undertake the study of these companies by considering many factors including their management, current and previous performance. The companies that are in question are Dorel Industries Inc., Gildan Activewear Inc and Leon's Furniture Limited.

Gildan Activewear Inc. is a manufacturer and market of basic apparel. Gildan also licenses for the Under Armour and New balance brand. Gildan offers its product in US, Canada, Mexico, Europe, and Asia-Pacific. Company headquarters are in Montreal, Quebec, Canada. Production facilities are in Central America, Caribbean and now company is developing manufacturing facilities in Bangladesh. In this report I will try to analyze company financial performance and shed some light on company profile on strategies followed by Gildan.

Marketing strategy:

For Gildan involves Price, Place, Promotion and Product is the main focus of their marketing. Gildan Activewear tries their best to keep their production cost lower so they can offer an inexpensive product to wholesale distributors and retailer while achieving significant profits. Gildan doesn't own a specific retail outlet instead they provide clothing to venues such as sporting, entertainment, and educational institutes (Turcotte, Marie, Bellefeuille, Frank 30). They target low-income shoppers, and the product is attractive option for cost leading stores like Wal-Mart and Target. Gildan use their website and sales team to reach out to mass distributors because this is where majority of their sales come from. Company product is selling non fashion T-shirts, sports shirts, fleece, polo socks, and underwear at cheaper prices.

Corporate leadership and the Board of Directors

There are 9 board members in the company including 4 inside directors and 5 outside directors

Overall financial position

Gildan has positive financial position in last 3 year period of time. The total asset has constantly increased from 1327. 5 to 1896. 4, while the increase in 2011 is the greatest which is 1858. 8, and shareholder's equity has increased 196. 7 in 2011 from 1114. 4, and then in 2012 it increased 115. 3 to 1426. 4. The company also has increase in net indebtiness from negative 258. 4 to 127 in 2011, and it decrease to 110. 6 in 2012. Furthermore the company has decrease of working capital form 545. 11 in 2010 to 328. 23 in 2011 than it increase to 445. 5 in 2012.

Overall financial performance

Also Gildan has constantly increased number of sales from over last 4 years from 1038 to 1948. 3 however, the net income that Gildan posted is \$ 148, 464 million in 2012, which is lower than net income of 234, 156 for FY 2011, but was increase as compared to net income of \$198, 245 for 2010. The negative net income in 2012 is due to the increase of costs of goods sold.

Cash Flow

The cash flow of Gildan active wear Inc. is decreased from 2011 to 2012, Cash flow from operating activities in FY 2012 was \$242. 7 it is lower than cash flow from operating activities of \$ 282. 1 million for 2011 and 270. 6 million for 2010. Also compare the cash flow of financial activity in 2011; the cash flow from financial activity in 2012 has a significant decrease to negative 69. 1 forms 155. 6 and it even lower than 1. 4 million in 2010. However the cash flow from investment has increase to negative 162 in year 2012 from negative 487. 9 in 2011, but it still lower than negative 141. 9 in 2010. In my opinion the reason of the decrease of cash flow is the policy to increase number of PPE key competitors. Also Gildan has generated 800 million of unsecured long-term credit facility.

Liquidity:

Company expects that cash flow from operating activities and unutilized financing capacity under revolving long term credit facility of \$800 million will continue to provide with sufficient liquidity for the foreseeable future to fund organic growth strategy, including anticipated working capital and

capital expenditure requirements, to fund dividends to shareholders. Also it gives Gildan the opportunity to complete their organic growth strategy.

The ratios for the company are

Profitability

Efficiency:

Gildan spend 350 million to acquisition of Gold Toe Moretz in 2011, and it lead a decrease to each of financial ratio of the company, and it cost Gildan one year to return to the ratio in 2010

Market performance

In my opinion the shares of the company has potential increase trend because the company's market capitalization is only 4. 9 billion which is very small, and it has the potential ability to increase in future if the company complete its organic growth strategy.

Leon's Furniture Limited

The strategy for the Leon's Furniture Limited: Amid the environment that economic growth fell slightly from an already slow pace in 2011 as consumers concentrated on minimizing debt, the strategy of the Leon's Furniture Limited on today's challenging retail environment is to achieve higher volumes of unit sales to maintain, and grow the company's revenue but they don't only remain their original belief that is to take a long-term view of our business and our perspective in today's economic environment, but also remain their traditional strengths, that is conservative financial management, to run company's business.

Corporate leadership and the board of directors: Corporate leadership:

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Dominci Scarangella, Terrence Leon, Mark Leon, Edward F. Leon, Robert J. Macnelly.

The board of directors: Joseph M. Leon, Mark J. Leon, Terrence T. Leon, Edward F. Leon, Peter B. Eby, Alan J. Lenczner, Mary Ann Leon, Frank Gagliano.

Overall financial position: Leon's overall financial position is fairly positive. Cash and cash equivalents are at \$74, 949. 00 which accounts for 12. 80% of current assets, \$30, 254. 00 in accounts receivable, which accounts for 5. 16% of current assets, and inventory at \$86, 057. 00 that accounts for 14. 17%, makes a total current assets of 58. 56% (Palepu, Krishna G & Paul, 2008). Non-current assets encompass of property, plant, and equipment at \$218, 146. 00 that makes total non-current assets of 41. 44%. Their liabilities are fairly minimal, evenly divided between current and non-current assets, totaling \$91221. This is a debt ratio of 0. 222.

Overall financial performance: Based on the ROE, even if there is a decrease on them from 2011 to 2012 and there is a decrease on net income, the Leon's furniture earned almost 10 cents for every dollar invested by the common shareholders. And also the ROE of Leon's furniture Limited ranked 23 out of 103 companies that from the industry of home furnishing & fixtures, which signals that the leadership is doing a good job at managing.

Cash flow: Cash flow from the operations, before changes in non-cash operating assets and liabilities, decreased from \$56. 6667 million in 2011 to \$46. 7820 million in 2012 which accounts for \$9. 884 million decreased in cash flow from operations, despite relatively flat revenues. The decrease in cash flow from operations was due to the change in net income at 17. 04%

between the years of 2011 to 2012.

Liquidity: Liquidity analysis, which focuses on cash flow, actually measures how quickly the company convert asset to cash. For Leon's Furniture Limited, they improve their company's working capital, which is from \$204, 649 in thousands on 2011 to \$227, 219 in thousands on 2012, which signals that they will not suffer a liquidity crunch in the near future. Therefore, the Leon's Furniture remains liquidity because company has not only a higher working efficiency but also has a good short term financial health according to doing good job on the working capital and current ratio.

Return on Investments: Leon's doesn't see any signs of significant improvement moving into 2013. However, the company remained competitive while experiencing poor economic growth that started in 2009. The company is investing in property, plant and machinery regularly every year as well as it seems to be opening new stores which is a sign of growth and expansion in the near future. They also have significant investment and simultaneous proceeds from available for sale financial assets for comprehensive income. However, Leon's made \$68. 2163 million in sales.

Efficiency: According to the ROE and ROA, they give us a signal that company is better at converting its investment into profit compared to 2011. Also according to the asset turnover and inventory turnover, the leaders have good abilities to manage their resource and avoid waste resources.

Profitability: Leon's furniture Limited remains profitable. Although it is easy to look down the slope of the trend by investigating its annual report at 2012, investor still believe company has a strongly financial position in the future because the company can still keep all the data relatively stable even

if the economic environment is not optimistic. Also, it is surprising to note that on November 11, 2012, even though the company had lower earnings compared that over past five years, company announced that they are ready to acquire The Brick to extend their sales revenue.

Market Performance: Since Leon's Furniture has become an integral part of Canadian homes. The Company remains committed to continued growth in sales and profits for the benefit of its shareholders, Company associates and customers. With multimillion dollar inventory levels, Leon's provides customers with almost instant delivery. The market for furniture which Leon's company is dependent on is bouncing back well from the recession in 2010.

Dorel Industries Inc. is a Canadian manufacturing company. The Company's lifestyle leadership position is pronounced in both its Juvenile and Bicycle categories with an array of trend-setting products. Dorel's powerfully branded products include Safety 1st, Quinny, Cosco, Maxi-Cosi and Bébé Confort in Juvenile, as well as Cannondale, Schwinn, GT, Mongoose, Caloi, IronHorse and SUGOI in Recreational/Leisure. Dorel's Home Furnishings segment, markets a wide assortment of both domestically produced and imported furniture products, principally within North America.

Strategy: Dorel's Strategy is to create strong supply chain, quality products and dedicated customer service and strong recognized consumer brands.

Corporate Leadership and Board of Directors: The corporate leadership are Heenan Blaikie, Schiff Hardin & Waite, Rick Leckner, Ritz-Carlton (Cadle, James, Paul & Yeates, 2010). The board of directors are Martin Schwartz, Jeffrey Schwartz, Alan Schwartz, Jeff Segel, Maurice Tousson, Harold P., Dian

Cohen, Alain Benedetti,, Rupert Duchesne.

Overall Financial Position and performance: Dorel was able to deliver revenue growth of just over 5. 3% in 2012 led by strong increases in Recreational / Leisure and in Juvenile. Dorel recorded revenues of \$2, 491 million, an increase from \$2, 364 million in 2011. The organic sales growth was approximately 4%. Net income for the full year amounted to \$108. 6 million or \$3. 39 per fully diluted share, compared to 2011 net income of \$104. 6 million or \$3. 21 per fully diluted share. In 2012, the Board of Directors doubled the quarterly dividend to US \$0. 30 per share or US \$1. 20 per year and as a result attracted new shareholders. Company's share price appreciated to 40% at the end of the year.

Cash used in net additions to property, plant & equipment and intangible assets was \$46. 3 million in 2012, consistent with the \$48. 2 million recorded in 2011. In 2012, \$14. 8 million was used in reference to new business acquisition versus \$36. 3 million in 2011.

Cash flow: For the year 2012, cash flow provided by operating activities decreased by \$55. 3, it was \$107. 2 million compared to \$162. 5 million recorded in 2011. The principal reason for the decline was an increase in inventory levels.

Home furnishings continued to boost the company's cash flow, while the revenue was basically flat. Profitability was affected by sales mix and the strength of the US dollar.

Liquidity: The Company's current ratio increased from 2. 24 to 2. 52 in the current year, which indicates that company has more than double short term assets to pay off short term liabilities in the case of obligations due. The

quick ratio increased from 1. 07 in 2011 to 1. 19 in 2012 and also working capital went up high by \$105, 112 in 2012, which shows that company has enough short term assets to cover its short term debts. Even by subtracting inventories and prepaid, company still has enough short term assets to meet obligations of short term liabilities.

Efficiency: Dorel's efficiency ratios show how effectively the company utilizes the assets as well as how well it manages its liabilities. The inventory turnover increased from 3. 87 in 2011 to 4. 04 in 2012.

Profitability: The overall profitability of Dorel Industries remained almost on same level as it was on last year. The return on assets (ROA), which was 0. 08%, and return on equity (ROE), which was 0. 05 remained the same for both 2011 and 2012, which indicates that the company is not able to produce good earnings. The company needs to invest in assets, which would produce more revenues for the company. At this point of time assets are producing enough.

Market performance: In 2012, the company had acquisitions at Chile and Peru which opened up the doors to grow in Latin America. The sales in the region for 2012 were approximately US \$125 million.

Dorel believes that its commitment to providing a high quality industry leading level of service has allowed it to develop successful and mutually beneficial relationships with major retailers. A high level of customer satisfaction has been achieved by fostering particularly close contacts between Dorel's sales representatives and clients.

In 2013, Dorel expect to see overall growth in both revenue and net income through investing in new product, market expansion and brand support. The

company has made strategic investment in the juvenile sector over the past few years and expects majority of the 2013 improvement will come from Latin America. The company would continue to invest in North American and European businesses to ensure that they remain the market leaders. In home furnishings growth prospects are less because they only focus on North American sales. They are further capitalizing on growth on the internet retail channel.

Conclusion

The three companies have showed a substantial improvement over the years. By being able to review their performance by cutting cost, increasing investment and focusing on niche products to beat competition, growth was achieved. However, one company stands to have more chances to be the most successful in future. Gildan active wear has a potential of improvement in the future due to its current market performance. If the company completes its organic growth, it has a better chance of stabilizing in the market by producing better products and adopting a strong leadership strategy. By also comparing the ratios, Gildan shows a trend of a reduction in current, quick and debt ratio compared to the other two. The small ratios indicate that Gildan has very limited liabilities compared to the other companies. By having limited liabilities, the company is able to use its finances for improvement in other sectors.

Works cited

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