Csl limited and cochlear ltd.

Business, Company

Cochlear Limited (Cochlear) operates in the implantable hearing device industry. Its products include cochlear implant system, Baha system, freedom accessories, speech processor upgrades and nucleus freedom implant. Nucleus Freedom is the next generation of Cochlear'stechnology, including SmartSound 2, which brings clarity to everyday hearing. Its bone conduction implant, the Baha system, helps people with conductive hearing loss, mixed hearing loss, as well as Single Sided Deafness (SSD). The Company has also introduced Nucleus Freedom speech processor technology to all of its Nucleus implant recipients.

Cochlear's Nucleus Freedom implant with Contour Advance electrode and Nucleus Freedom implant with Straight electrode features an electronics platform with a microchip. During the fiscal year ended June 30, 2009, Cochlear acquired Percutis AB, a Swedish company. (Cochlear official website (2010)) INTRINSIC VALUE DCF methodology was used to calculate the intrinsic value of the company’s share. Initially trends were studied of the net operating profit after tax and then forecasting was done by taking the average of the trends. Then free cash flow to the firm was calculated using the above explained DCF methodology.

(Reuters 2010) Assumptions Trend of operating profit has been found out and then average of it has been taken to forecast future operating profits. In this case we have found out the average to be 15%. Increase in capital expenditure has been taken to be 500, 000 AUD per year. Even this has been the trend of the last four years. Market premium has been taken to be 5. 8% which is the average of the last 100 years. Long term growth has been assumed to be 3. 5%. This has been found out taking into consideration the life cycle in which the company is currently present and the sector outlook for future.

The table below shows the weighted average cost of capital calculations. Risk free return is got from the yield on 10 year bonds issued by the Australian government. Beta is taken from the Reuters database and market premium is found out by taking average returns for the past years. Cost of debt has been calculated from the interest charges paid by the company divided by the total debt. CSL Limited is a biopharmaceutical company engaged in the research, development, manufacture, marketing and distribution of biopharmaceutical and allied products.

It operates in three segments: CSL Behring, which is engaged in manufacturing, marketing and developing plasma products; Intellectual Property Licensing, which is engaged in licensing to unrelated third parties of intellectual property generated by the Company, and Other HumanHealth, which comprises CSL Bioplasma and CSL Biotherapies. These businesses manufacture and distribute biotherapeutic products. It operates in Australia, United States, Switzerland and Germany. (CSL Limited official website , 2010)

Current Financial Performance For the six months ended 31 December 2009, CSL Limited's revenues increased 2% to A$2. 41B. Net income increased 23% to A$617. 4M. Revenues reflect an increase in income from Other Human Health segment of the group. Net income also reflects a decrease in research ; development expense, lower selling ; marketing expenses and a decrease infinancecosts. CSL Limited is engaged in the development and manufacture of vaccines. (Reuters, 2010) Intrinsic value DCF methodology was used to calculate the intrinsic value of the company's share. Initially trends were studied of the net operating profit after tax and then forecasting was done by taking the average of the trends.

Then free cash flow to the firm was calculated using the above explained DCF methodology. Assumptions Trend of operating profit has been found out and then average of it has been taken to forecast future operating profits. In this case we have found out the average to be 17%. Increase in capital expenditure has been taken to be 2, 250, 000 AUD per year. Even this has been the trend of the last four years. Market premium has been taken to be 5. 8% which is the average of the last 100 years. Long term growth has been assumed to be 4%.

This has been found out taking into consideration the life cycle in which the company is currently present and the sector outlook for future. The table below shows the weighted average cost of capital calculations. Risk free return is got from the yield on 10 year bonds issued by the Australian government. Beta is taken from the Reuters database and market premium is found out by taking average returns for the past years. Cost of debt has been calculated from the interest charges paid by the company divided by the total debt. The table below shows the ratio analysis of Cochlear Limited.

The following are the analysis based on the ratios There has been no increase in the Gross profit margin. This might mean that either the sales have not increased or costs have increased. The company needs to seriously work on it and find out the reason for it. If its due to higher cost then it has to reduce its operating cost and if its due to reduced sales then increase the marketing budget. There has been a reduction in the net profit margin. This is not a good sign for the company. It might be due to stagnant sales or improper tax planning. Current Ratio has increased steadily.

This leads to increase in the current assets. For the short term the company is good in handling its operations . This internally affects the net working capital required by the company. This effects the valuation calculation. Average receivables haven't changed significantly. This means that the company is getting the cash from the customers at the same rate as it was used to getting earlier. This leads to poor cash management. Due to this the company might be required to take additional loan from outside parties leading to increased cost of capital.

Inventory turnover had reduced and now it has reached back to the condition what it was 4 years before. Company needs to work on it because higher inventory turnover will mean the goods are moving at a faster rate. Company needs to work on its demand forecasting methods so that only optimum inventory can be kept and this will lead to lower inventory carrying cost. Debt to equity ratio is at optimum level. This means the company is looking for expansion. This is a good sign as themoneywill get invested in projects and they might generate higher returns leading to better profitability.