

Westover inn: financial analysis

Finance



In regards to the past performance of the Western inn, it is clear to see that the inn has been an underperformed in regards to recording any positive net income. Despite the consistent years in failure to produce a positive income, the trend is clear that progression is being made as each year has shown an increase in profit and revenue. This has much to do with the productive way of reducing expenses and the inn gaining more recognition and consistent clientele.

A clear issue the inn has faced has been has been the trouble of repaying its interest on their original investments s seen with a times covered ratio.

Current Performance: The current year of 1994, the inn again showed a positive increase in net income, with a slight drop in revenue. With proper managing of expenses and lower average collection period of 20, the inn has been able to report a higher net income. An issue for the inn shows a lower liquidity ratios, with the current ratio at . 40 quite below the expected level of 1 and quick ratio of . 5, representing the difficulty of converting inventory into cash. What this meaner is the low levels of the liquidity rations could spell the threat of possible bankruptcy. Future Performance: The future of the inn looks a little more promising then the past years, as revenue has been steady and constant increase in net income, it could be soon the inn will be reporting positive income before interest and depreciation. A small issue the inn faces is in regards to their leverage ratios, which could spell difficulty in borrowing funds in the future.

Although if economic conditions continue to increase, with lower interest rates the inn will show increased profitability. NP Analysis In an optimistic scenario, based on our opportunities we deducted the inn will began to

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become a profitable organization. In this scenario we see a quick increase in revenue in the earlier years with a drop, but still steady revenue following 1998 in a matured market. The scenario we generated came up with a positive NP of \$979210. With this scenario the inn would show a profitable organization in upcoming five years.

In the most likely scenario, the realistic scenario the inn remains as a profitable organization but less than the optimistic view. This generates a positive NP of \$134, 113. The inn will stay profitable but with less certainty.

In a pessimistic scenario, the inn will result in a unfortunate investment, leading too an negative NP of \$668, 930. This investment would not be worth the risk and would lead the inns downfall. This scenario shows a worst case scenario, with economic conditions resulting in a downfall.

EXHIBIT 1 Assumptions Ana Justifications Optimistic: 1) Sales, assumed to increase at 13% until 1997 and then 10% in 1998 and 1999 respectively. 2) Direct, General Administration and other Expenses, assumed to increase at 8% until 1997 and 7% in 1998 and 1999 respectively. Over short periods, the fluctuations in the exchange rate are not material. Also with the US dollar increasing, the tourist from the US will be willing to spend more at the Inn. Also with the stronger marketing campaign, tourism is expected to increase and bring in more clientele and recognition in increasingly favorable economic conditions.