Comments and recommendations re lamar swimwear

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Vertical analysis of the income statements of Lamar Swimwear for the years 200X, 200Y, and 200Z show the following changes in the company's income and expenses:

(Amounts in 000s)	200X	%	200Y	%	200Z	%
Sales	1, 200. 00	100. 00	1, 500. 00	100. 00	1, 875. 00	100. 0
Cost of Sales	800. 00	66. 67	1, 040. 00	69. 33	1, 310. 00	69. 8
Gross Profit	400. 00	33. 33	460. 00	30. 67	565. 00	30. 1
Selling & Administrative Expenses	239. 90	19. 99	274. 00	18. 27	304. 70	16. 2
Operating Profit (EBIT)	160. 10	13. 34	186. 00	12. 40	260. 30	13. 8
Interest Expense	35. 00	2. 92	45. 00	3. 00	85. 00	4. 53
Net Income before Taxes	125. 10	10. 43	141. 00	9. 40	175. 30	9. 35
Income Tax Expense	36. 90	3. 08	49. 20	3. 28	55. 60	2. 97
Net income	88. 20	7. 35	91. 80	6. 12	119. 70	6. 38

The company’s revenues and expenditures basically comprise the same percentages in relation to the total revenues through the amounts that have proportionately been increased. Thus, it shows that the increases in Lamar Swimwear’s revenues in 200Y and 200Z have triggered a proportionate increase in its costs and expenses. There were no major cost-cutting measures and no dramatic increases in revenues to warrant an increase in the net income that would change the vertical composition of the company’s levels of income and costs. In fact, the net income in 200Y and 200Z turned out to represent smaller percentages of the corresponding sales. While the net income in 200X was 7. 35% of the sales, the equivalent figures for 200Y and 200Z represented only 6. 12% and 6. 38%, respectively, of the sales. These decreases of less than 1%, however, are immaterial and do not present a major issue.

Lamar Swimwear’s liquidity levels have decreasing year-on-year during the years 200X, 200Y, and 200Z. Its current ratios for the three years were 2. 04x, 1. 72x, and 1. 31x, respectively. In 200Y and 200Z, its liquidity levels were lower than the industry averages, which were computed at 2. 25x and 2. 40x. This is because Lamar Swimsuit’s accounts payable has been increasing materially and there has been no equivalent increase in its current assets.

These decreasing liquidity ratios do not paint a good picture. Unless things change, the company might end up unable to meet its current obligations using its available current assets. This fact does not make the company an attractive one to invest in.

For the years 200X to 200Z, the company's debt to total assets ratios have been bigger compared to the industry average. This means that the level of the company's indebtedness is higher compared to that of other companies in the industry. Its debt to asset ratios from 200X to 200Z where 49. 58%, 52. 11%, and 59. 23%, respectively, while the industry averages for the same years were 43. 47%, 43. 11%, and 44. 10%. This means that the company is more heavily indebted as compared to the others in the same industry. Again, this does not paint a good picture.

Lamar Swimwear has turned out to be the lagging behind the other companies in the same industry in terms of profitability in 200Y and 200Z. Compared to the industry average, Lamar Swimwear turned out to have a better Return on Assets and Return on Equity only in 200X. On the whole, the ratios for the three years reflect the company's poor performance in terms of net profit margin, return on assets, and return on equity. This means that the company does not have a good share of the total market bulk of the industry it belongs to, notwithstanding the fact that it enjoyed healthy year-on-year increases of 25% in its sale in 200Y and 200Z. Such yearly increases in the company's sales, when reported by itself, turns out to be misleading. A more comprehensive look at the entirety of the financial statements and those of the others in the same industry shows that Lamar Swimwear is not performing well at all when viewed in comparison with the rest in the industry.

Given the fact that Lamar Swimwear does not give out dividends and that it does not fare well in comparison with other companies in the industry, it belongs to in terms of profitability and liquidity, buying the company shares that are put up for sale is not recommended as a wise investment decision.

Reference:

1. Brigham, E. & Houston, J. (1998). Fundamentals of Financial Management. Orlando, FL: The Dryden Press.