

Ratio analysis: estee lauder vs. l'oreal essay



**ASSIGN
BUSTER**

Contents

- Case Study: Ratio Analysis Estee Lauder Vs. L'oreal

Profitability Return on Investment

- Estee Lauder – $482.4 / 1965.4 = 24.5\%$
- L'oreal – $2242 / 14865.8 = 15.1\%$

Return on Capital Employed

- Estee Lauder – $789.9 / 1965.4 + 1798 = 21\%$
- L'oreal – $3056.9 / 14865.8 + 2596.6 = 17.5\%$

Operating Margin

- Estee Lauder – $789.9 / 7795.8 = 10.1\%$
- L'Oreal – $3056.9 / 19495.8 = 15.7\%$

Gross Margin

- Estee Lauder – $5966.4 / 7795.8 = 76.5\%$
- L'Oreal – $13799.3 / 19495.8 = 70.8\%$

Sales Growth

- Estee Lauder – $7795.8 - 7323.8 / 7323.8 = 6.4\%$
- L'Oreal – $19495.8 - 17472.6 / 17472.6 = 11.6\%$

Liquidity Working Capital

- Estee Lauder – $3121 / 1572 = 198.5\%$
- L'Oreal – $6996.3 / 6582.1 = 106.3\%$

Acid Test

- Estee Lauder – $3121 - 826.6 - 427.5 / 1572.2 = 118.7\%$
- L'Oreal – $6996.3 - 1810.1 / 6582.1 = 78.8\%$

Activity Asset Turnover

- Estee Lauder – $7795.8 / 5335.6 = 146.1\%$
- L'Oreal – $19495.8 / 24044.5 = 81.1\%$

Receivables Turnover

- Estee Lauder – $7795.8 / ((746.2 + 853.3) / 2) = 9.75$
- L'Oreal – $19495.8 / ((2685.3 + 2442.3) / 2) = 7.6$

Coverage Debt to Total Assets

- Estee Lauder – $1572.2 + 1798 / 5335.6 = 63.2\%$
- L'Oreal – $2596.6 + 6582.1 / 24044.5 = 38.2\%$

Cash Debt Coverage Ratio

- Estee Lauder – $956.7 / ((3370.2 + 3512.6) / 2) = 27. \%$
- L'Oreal – $3303.6 / (9178.7 + 9693.1) / 2 = 35\%$

Profitability measure a company's ability to generate profits. The Return on Investment for Estee Lauder is larger than L'Oreal's, meaning Estee Lauder is more efficient with its investments. The return on capital employed indicates the efficiency and profitability of capital investments. Estee Lauder seems to have a better efficiency of capital investments than L'Oreal by about three percent. Operating Margin is a measurement of what amount of revenues is left over after paying for variable costs.

L'Oreal makes about 16 cents on the dollar where Estee Lauder makes about 10 cents on the dollar. L'Oreal is more efficient with their pricing strategy and earning more per dollar of sales. Gross margin is the ratio of a dollar revenue that is used to cover costs and obligations. Both companies have relatively high gross margins although Estee Lauder is more efficient in covering costs with it's revenue than L'Oreal. Sales Growth is simply the

growth in sales from the previous year in a percentage. L'Oreal grew almost 12% from 2009 to 2010.

Estee Lauder also grew but only by about 6%. Liquidity measures a company's ability to meet its current obligations. Positive working capital means that a company is able to pay off its short term liabilities. Both Estee Lauder and L'Oreal have very high working capital making them very liquid. They are both considered healthy firms. Acid test determines whether a company has enough short-term assets to cover their current liabilities without considering selling inventory. Both Estee Lauder and L'Oreal have acid tests that are lower than their working capitals.

This means their assets depend heavily on their inventory. Estee Lauder has a more efficient way of collecting accounts receivable than L'Oreal.

Case Study: Ratio Analysis Estee Lauder Vs. L'oreal

Lauren Vogrin Acc 5000 4/7/11

Activity ratios measure the efficiency of a company's assets. Asset turnover is the amount of sales for every dollar worth of assets. Estee Lauder has a much larger percentage of asset turnover. This means it is very efficient at using its assets in generating sales or revenue. Receivables turnover measures how efficiently a firm uses its assets.

Coverage is a measure of a firm's ability to repay its debt obligations. Debt to total assets shows how much of the company's assets have been financed by debt. Estee Lauder has a considerably higher debt to total assets ratio which means a majority of their assets have been financed by debt. Cash

debt coverage ratio is the operating cash flow of the company and its ability to use the cash to meet obligations. L'Oreal is more efficient than Estee Lauder at using its operating cash flow to meet obligations showing their ability to use liquid funds rather than credit.