

# [Studio tessier case case study example](https://assignbuster.com/studio-tessier-case-case-study-example/)

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## Executive Summary

This work has to be written consecutively and logically in order to consider and to take into account all features and decisions of the problems and to comprehend the overall situation. I intend to define the main problem of the case, its issues and describe it.
When the problems will be defined, and the description will be finished, I am going to analyze the financial performance of the business using the financial data of the case. This part of the paper is the largest and has a very important meaning for decision-making. Financial and numerical data describes precisely the state of the business showing changes and general rules of enterprise activity. This data has to be analyzed and discussed in detail in order to make the right decision.
The 4 C’s analysis of credit for working capital loan is a powerful and complex instrument for examination of the problems that I have to decide, and it is used in this paper. The banks use this tool, before they lend money to the borrowers. They summarize such four characteristics of a borrower: character, capacity, capital and its collateral.
Before I resume the research paper, I present the possible financial statements of the future fiscal year. Based on this data I can do more complete and precise conclusions.
Then, I propose some alternatives using the available information and analyze the implications of each alternative. The last part of the paper consists of my decision and my recommendations about this case.

## Main Problem and Issues

The main question of the case is a decision to extend or not the working capital loan of Studio Tessier. I have to consider the object of investment, the condition of business activity and its development, the probability of owner’s forecasts about the revenues and the losses that the company can be incurred.
The banks have to reduce and manage their risks, this is a peculiarity of their activity, and, therefore, all issues above have to be examined in detail.
The public activity and the reputation in the community is a cause of the confidence to the owners of Tessier Company, but it is not a guarantee of the good financial planning of the business and a risk-free investment.
Second issue is a Paul’s approach of managing of the business; the people-interaction is a good for the company, but such attitude to cash flow can be a problem of liquidity in the future. On the other hand, the design business constitutes 65 per cent of total revenues, and an additional loan will be invested in that branch.
Third issue is the growth of an amount of the cash on purchases of inventory and long period of its turnover; it can also be a reason of some problems with liquidity and cash. It is necessary to take into account the terms of the payments receivable and payable. They also have to be coordinated right for avoidance of cash and liquidity problems.
This company is not profitable, because it was incurred losses a year ago, and there is a probability that the sales will not reach enough sales and how the new loan will be secured by own company’s assets. We have to take into account the collateral assets to working capital loan ratio at presence and compare it with the future ratio.
The idea of adding three boutiques and creating a new shopping area for other entrepreneurs is interesting, low-cost and low-risky approach to expansion of the business in case of existence of the demand on this area. The Tessiers had already these clients.

## Analysis of Financial Statements

I have the financial statements for three last years: statements of earnings, statement of retained earnings and balance sheets. The net sales decreased in 2001 relatively 2000 and increased in 2002 relatively last two years. But the cost of goods increases every year in cash and relatively the net sales. The large amount of inventories and the low turnover explain these values in 2001 (the merchandises were discounted). The growth of cost to revenue ratio is explained by the growth of revenue of interior design business where the margins are lower than in the clothing business. The operating expenses remain on the same level and have the tendency to decrease relatively the revenue. It means these expenses are optimized, and the company has an economy on the scale.
The profit is positive at present and is augmented from 2000 to 2002, but in 2001, the company had losses because the owners invested prematurely in the expansion of the business. The company had the positively retained earnings and paid out the dividends at the end of each year.
The total assets grew from 2000 to 2002; the current assets and the fixed assets separately grew too. But I see the decrease of total assets in 2001 and the small amount of quick assets; it means the low level of liquidity assets.
The total liabilities remained on the same level in 2000 and 2001, but they increased in 2002, the shareholder’s equity increased too in 2002, and I observes the positive tendency, because the current liabilities decreases significantly relatively the shareholder’s equity, and this ratio is equal to 73, 8% (82, 8% in 2000). The sources and the uses of cash are relatively equal, and it is a good for the activity of the company.
Return on equity is an important ratio. This ratio is very high and is equal 210% in 2000, and this value is excellent, but it means that the business is risky and it is confirmed. This ratio was negative in 2001 as the company had losses. At presence, the return on equity is equal to 132%. Tis value is good and quite high, and I think this means that the business became more stable and persistent.
The stability ratios reflect the same situation of the performance of the company. Net worth to total assets ratio increased in 2002 and reached 26. 2%, it is a good value, which is evidence of company stability. Interest coverage (EBIT/Interest Expense) is increased from 4. 2 to 7. 8. It is also positive changes.
The liquidity ratios indicate the ability of the company to pay out current liabilities. Three ratios increased for two years. The current ratio (Current assets/Current liabilities) increased from 1. 14 in 2000 to 1. 29 in 2002. Acid-test ratio is the quick assets (cash + accounts receivable + short-term investments) to current liabilities ratio. It reflects how current assets without inventory cover the current liabilities. This ratio had a high value and was equal 0. 33 in 2000, but it decreased strongly in 2001. It was one of the reasons of losses of the company that year. In 2002, the acid-test ratio increased and has enough value – 0. 21. And the last index of liquidity is a working capital (Current assets – Current liabilities) It has a positive tendency and increased in several times for 2 years.
The next indices are the ratios of efficiency. The age of receivable indices the average term of payments receivable and the age of payable indices the average term of payments payable. As the first ratio is less than second, it is good for liquidity of the company. The age of inventory is the average number of days to sell the unit of the inventory, and this ratio increases last three years. The reason of such tendency is a growth of the amount of the inventory and the development of the company.
The company has a good performance of growth for last year. Sales increased on 28%, and total assets were augmented on 52. 4% and shareholder’s equity was augmented on 327%.
It is possible to compare the financial performance of two businesses using last two exhibits in the case. The net earnings of the interior design business is higher in two times (are equal to 3. 6%) than the net earnings of women’s ready-to-wear stores. The return on equity of two businesses is relatively equal. All ratios of stability, liquidity of the interior design business are higher than the ratios of the clothing business. The acid-test ratio of the clothing business has a low value (0. 2), and it is a bad for the business.
4 C’s Analysis of Business Credit
- Character
The borrower is a company that has two main branches of activity. The managers are respected people with the good reputation. The company has the available working capital loan of 63000$. The total liabilities are equal to 139852$. There are no problems with credit payments.
- Capacity
The business was opened in 1996. It has a good ability to generate the revenues and has become more stable for last years. The business had positive cash flow last year.
- Capital
The total assets of the company are equal to 189458$, where 49601$ are the shareholder’s equity. The assets consist of 31795$ of quick assets, 149044$ of equity and 8, 618 of fixed assets. Net worth to total assets ratio equals to 26. 2%.
- Collateral
At present, Tessiers has a working capital loan of 63000$, which is secured by the assets with a realizable value of 12500$. The pledge to loan ratio is equal to 19. 8%. So, the pledge’s amount has to be increased approximately to 20000$.

## Projected Financial Statements

Alternative Analysis
There are two decisions of this case and three most probable alternative consequences of these decisions. First, the bank refuse the extension of working capital loan to Tessier Studio, and this company continues its profitable activity with sustainable slow development. In the course of time, the company can do a new request about the extension of the loan.
The second alternative is the decision to extend the working loan for this company. This decision has two additional consequences. The first implication is when the business activity will develop according to the expectation of owners (as it is shown in the projected financial statements). The second implication can be as in 2001, and the company will be incurred the losses. In this case, the losses will not huge, because the less part of the new loan will be spent on the development of the design interior business and the inventory of this business will not be strongly discounted.

## Recommendations

I think the positive decision of bank’s manager to extend the working capital loan is a more right decision in this case. First, the Tessiers had the unsuccessful experience related with the extension of their business, and I expect they took into account their mistakes. Second, their business is a profitable now, and it became stable and persistent. I doubt that this additional credit will be a reason of their insolvency. Third, the company has enough assets for secure their credit. And forth, the most part of the credit will be financed in the creation of a new shopping area and Tessiers already have the clients that are ready to rent this area. And the rent payments can cover the mortgage payments. These all facts persuade me that the decision of additional extension of the working capital loan for this company is right.