

Prospective analysis essay examples

[Business](#), [Company](#)



INTRODUCTION

It forms part of the four business analysis. It is the last step among the process of business analysis. The first step of business analysis is business strategy analysis, accounting analysis, financial analysis and lastly is the prospective analysis.

As noted earlier that the final step in business analysis is the prospective analysis and mainly focuses on forecasting a firm's future earnings and cash flows. Prospective analysis is drawn from the findings from accounting, financial, strategic and business environmental analysis.

According to the 2010 Annual Report to Shareholders, Gale Pacific communicates the results of the 2009-2010 financial years. Overall, sales growth and earnings have increased and future prospects to earn a greater profit margin and expand in becoming a globally successful firm in its growing industries seem promising

The ASX announced improved profit performance 6 months to 31 December 2009. It was expected that the company NPAT would be approximately \$3million (increasing by 36% from the prior period). Also, results reflected strong cash generation resulting in reduction of net debt (\$14million at 30 June 2009 to \$6. 5million at 30 December 2009). Debt to equity at 31 Dec 2009 was 9%. Sales (at \$51. 4million) increased by 9% from the prior period (Gale Pacific 2008 ASX Announcements).

As a result of global market ambiguity and unpredictability, forecasting financial performance is difficult; however, it is easy to say that the company will expect to achieve sales and profit growth in the 2011 financial year. Over the last four years, cash generation has been consistent and will sustain

growth opportunities. Gale Pacific has used differentiation as its business strategy for both of its product lines. It has been successful in providing unique products to the market that are of great value for money and protect against the elements and are environmentally friendly

VALUATION

The firm valuation model;

THE COST OF CAPITAL APPROACH:

Here the value of the firm is obtained by discounting the free cash flow to the firm at the weighted average cost of capital which is 8% for this case.

The value of the firm will therefore be US\$ 19, 305, 000

Capitalizing earning past approach

This approach allows the a valuator to determine expected level of cash flows for the company using a company's record of past earnings, normalizes them for an usual revenue or expense and multiply the expected normalize cash flows by the capitalizing factors.

So for this case 15% is preferable as our capitalizing factor

1. Using the previous sales of Gale Pacific Limited;

2009 is 47. 16 million

2010 is (9%) up previous year working out to 51. 4 million

Normalizing this $\frac{1}{2}(47. 16+51. 4) = 49. 28$

The value of the firm will be $49. 28(0. 15) = 7. 392$ million

2. Net profit after tax 3 million which is 36% increase thus previous years is

100/136(3) is 2.2 million

2009 is 2.2 million

2010 is 3 million

Normalizing this $\frac{1}{2}(2.2+3.0) = 2.6$

The value of the firm will be $2.6(0.15) = 0.39$ million

Cash from operation is 18 million up 58% thus previous year is $100/158(18)$ is 11.4 million

Normalizing this $\frac{1}{2}(11.4 + 18) = 14.7$

The valuation will be $14.7(0.15) = 2.2$ million

QUESTION TWO

The firm chosen is a manufacturing firm. Therefore the likely challenges to be encountered together with opportunities and remedies provided may include;

Challenges

Technology

Technology has greatly proven to be a vital challenge to most business firms especially to employees that have to learn the emerging technology every time and again due to its dynamic nature. This can lead the firm to be toppled out business and therefore should be addressed without a second thought. The remedy to this challenge is the firm coming up with training personnel that can assist in bringing up the employees to the standards of the current technology.

Competition

Competition has become the order of every business industry. A firm must be careful enough with the same forms in the business to make sure that they are in the business at all times and that they retain their market share or even increase it. To come up with this strategy, a firm must be able to differentiate its products from its competitors. The firm should also be able to come up with a good marketing strategy so that they can produce just what the customers want and to the degree of quality they want it.

Customer expectation:

A customer is a very important client of a firm. A customer should always be put at the centre of all business transactions of a firm at all times.

Customers' expectations change frequently and very fast. A company should be careful enough to always produce what the customers want to help retain them. This can be done mainly by closely monitoring the customer's expectations; this can be achieved by frequently enquiring what they want in the market, this may help the firm to always produce what the customers want thus increasing its sales.

Globalization:

Coping up with the aspects of globalization is not easy because issues like standardization of quality to meet the international standards might come up with different challenges which have to be met to compete globally such issues like ISO for instance would mean restructuring or re-engineering of the firms way of doing business. The remedy of this challenge is to keep up the current trend within the business environment.

Management skills:

Good management is a vital tool to success of a firm. Management skills should always be applied in the firm because just the slightest mismanagement can cost the firm a great deal. To ensure that this remains the case, qualified personnel are needed in the firm. This can be achieved by the company coming up with appropriate methods in recruiting members into positions in the firm. The chief executive officer should be given to the employee with experience in management issues.

Capital:

Proper investment projects involve a good amount of capital. Investment projects are some of the techniques employed by companies in order to expand therefore it is very necessary. This can not be achieved by insufficient funds as capital; therefore a firm should always be in a position to solicit for enough capital in order to venture in good projects to facilitate growth.

Opportunities

Technological expertise:

This as discussed earlier is a major challenge in the business sector to many firms therefore a firm that have expertise in this field is likely to have many opportunities and therefore leading to higher earnings in the long run. This can be classified as a competitive advantage over other firms.

Cheap source to raw materials:

A cheap source to raw materials is an opportunity in that it increases profits in the long run. If quality raw materials are acquired cheaply and then the

firm after production attains high sales then the profits will definitely rise as compared to this firm that acquires raw materials very costly and then afterward attains sales equal to the other company or even slightly higher. The former will in the long run earn profits less to the other hence an opportunity.

Accessibility to capital:

A firm that can easily raise capital is likely to venture into many business transactions as compared to the one that doesn't have easy access to capital. The firm with ease accessibility will therefore develop at a faster rate than the other.

Discovering untapped market:

Discovering untapped market can be an advantage to a firm since this can make the firm to enjoy monopoly rights. Being a monopoly, the firm will be able to experience greater sales and enjoy high profits. The firm will also be able to gain a larger market share.

Innovation of new product:

A new product in the market can cause a challenge just before it is accepted by the consumers but once they accept it, the firm will be the only one that sells that kind of product and therefore this will earn the firm greater sales and thus greater profits.

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