

Advanced medical technology corp.

Technology



Advanced Medical Technology Corporation (MAT). A growing company. Is eagerly interested in borrowing capital from Western National Bank of San Francisco, California in the amount of \$8 million to maintain its current market position and to exploit new markets. The president of MAT believes that given the current standing of the company, sales will continue to grow in the same pace. Here are the issues Western National Bank of San Francisco should look into and study in order to come up with a decision regarding the loan request of MAT: (1) Current financial condition

The financial statements of MAT for the years 1983, 1984 and 1985 shows that the company has been experiencing net losses for the past three years, primarily brought about by heavy spending on research and development. However, despite the losses, it seems that the company's net profit margin has been improving in a continuing velocity. From 1983 to 1984, the net profit margin of the company improved considerably from -9.77% to -5.44%. This continued the following year with a net profit margin of -4.82.

From this, we can infer that should the company continue its aggressive and competitive market stance, its net income would continue to improve. However, given the percentage of increase, the company will still continue to see negative income in the coming years. Reviewing the company's financial statements also shows that the company is realizing negative return on assets. Albeit negative, MAT's return on assets improved significantly from -14.1% in 1983 to -7.15% in 1984. This growth in ROAR continued the following year.

Because MAT relies heavily on credit lines to finance its needs for research and development, it is important to look into the ability of the company to pay off its debt given its current earnings and assets. The current ratio of the company is decreasing. In 1983, it had a current ratio of 2.57. It dropped down to 1.78 in 1985. This shows the ability of MAT to pay-off its short-term debt. With the current ratio of the company, it may be safe to infer that the company has the ability to fulfill its short-term obligations. (2)

Security/Collateral and investments. MAT has a total of almost \$6 million outstanding receivables in 1985.

Given the aging of accounts receivable that year, it seems that there is a lot of room for improvement in the AR collection of the company. MAT should also implement a more rigorous investigation prior to granting a credit line to clients or customers. This is to ensure that the company attains a more acceptable average collection period. The investment of MAT totaling a little more than \$1 million may be a good source of security for Western National Bank of San Francisco, California. Recommendation Given the factors stated above, this paper does not recommend the granting of the requested line of credit in the amount of \$8 million.

The ratio analysis clearly shows that MAT will continue to see negative returns and profits in the coming years. Its heavy investment in research and development leads to disproportionate operational expenses, which subsequently results in net losses. While the president of MAT is confident that sales will continue to increase at an unprecedented pace, this may not be enough for the company to generate profits from its assets and investments.

Given this, MAT is most likely to have a difficult time in managing and paying Off loan in this amount.