

Company overview research paper samples

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Hewlett Packard Company (HP) is an American multinational corporation founded by William Hewlett and Dave Packard in 1939 and incorporated in 1947 in California. The company is a provider of computer hardware, software and IT services. Its main products include HP desktops and laptops, HP printers, HP servers and HP enterprise software. It also provides technology consultancy and outsourcing to businesses, states and organizations. Thus, the company falls under Information and Communication Industry. Its main competitors in this industry include International Business Machine Corporation (IBM), Dell Corporation, Cisco Systems, Apple Corporation, Toshiba Corporation, Xerox Corporation and NCR Corporation.

HP currently employs about 317, 000 people. It has over 1000 producer supplies spread in 6 continents. In the year ending October, 2013 the company posted a net income of \$5, 113, 000 against total revenue of \$112, 298, 000. This was a positive result considering that the company had made a loss of \$12, 650, 000 in the previous year 2012. The company market capitalization based on figures from New York Security Exchange is 56 billion US dollars. In the year 2013, its share price oscillated between a minimum of \$ 16 and \$ 30.

Horizontal Analysis of Income Statement and Balance Sheet

The purpose of conducting horizontal financial analysis is to get financial trends. It involves comparison of line items or financial ratios over a number of accounting periods. The line items are compared against a predefined financial year also known as base year. In most cases, the base year is the earliest year in the defined accounting period. Trend analysis is used for assessment of relative changes in financial figures over time. It is

appropriate method used to reveal the behavior of line items and ratios over a course of time. This analysis is performed in two ways namely absolute comparison and percentage comparison. Absolute comparison involves comparing currency amount of line items while percentage comparison entails comparing of percentage changes in line items. Absolute comparison is appropriate when financial statement from a single company is being analyzed. On the other hand, percentage comparison is preferred when financial statement from more than one company is under analysis. For purposes of this analysis, the year 2010 was used as the base year.

Hewlett Packard: Income Statement

Get Quarterly Data

(Source: <http://www.nasdaq.com/symbol/hpq/financials?query=income-statement>)The following table shows horizontal analysis of HP's Income Statement

Income statement is used to report the company financial performance over a given period of time. Items in income statement are categorized as either revenue or expense. The HP's income statement reveals that the company's revenue has been declining for the last two years. The only year it generated more revenue than 2010 revenue was in 2011. The company gross profit has also been reducing since the year 2010. On the other hand research and development and sales and administration which are operating expenses have been rising since 2010. In summary, the company has not had stable positive growth in revenue and profits.

Hewlett Packard: Balance Sheet

(Source: <http://www.nasdaq.com/symbol/hpq/financials?query=balance-sheet>)

The following table shows horizontal analysis of HP's Balance Sheet

The balance sheet is an important financial statement that shows the financial health of an organization, company, business at the time of its preparation. It is prepared in three categories namely assets, liabilities and equity. Assets is what the company owns which may include cash, inventory, and equipment. Liabilities are the company's debts or financial obligations it has to fulfill. On the other hand, equity shows an estimate value of the company's ownership.

The HP's total current assets current assets have been declining since the year 2010. This is largely attributed to reduction in net receivable and other current assets over the years. Besides, total current liabilities declined in the year 2013 and 2012 as compared to the year 2010. The same trend was also exhibited by the total long term assets. In summary, since the year 2012, the company total asset value has slumped downwards.

Ratio Analysis

Ratios or measuring liquidity

Liquidity is a term used to refer to the ease with which an asset can be converted to cash. Liquidity ratio assesses the ability of a company to pay its short term debts using its current assets (Knezevic, Rakocevic & Duric, 2011). There are three types of liquidity ratios used for purposes of analysis

of HP's financial statements. They include current ratio, quick ratio and cash to current liabilities ratio.

Current Ratio

= Current Assets / Current Liabilities

50,364,000 / 45,521,000

1.11

50,637,000 / 46,666,000

1.09

Comparative Analysis

(Source: <http://www.stock-analysis-on.net/NASDAQ/Company/Apple-Inc/Ratios/Liquidity> and <http://www.stock-analysis-on.net/NYSE/Company/International-Business-Machines-Corp/Ratios/Liquidity/Quarterly-Data>)

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Quarterly-Data)

Current ratio is used to evaluate a firm's ability to fulfill its current liabilities using its current assets. The current ratio for HP was lower than the same ratio for its main competitors IBM and Apple. Meaning, it has less ability to service its debts and fulfill other short term financial needs than its two competitors. This also implies that HP is likely to borrow to meet its financial needs than its competitors. However, this ratio improved in 2013 compared to 2012.

Quick Ratio

= (Current Assets - Inventory) / Current Liabilities

(50,364,000 - 6,046,000) / 45,521,000

0.97

50,637,000 - 6,317,000 / 46,666,000

0.95

Comparative Analysis

(Source: <http://www.stock-analysis-on.net/NASDAQ/Company/Apple-Inc/Ratios/Liquidity> and <http://www.stock-analysis-on.net/NYSE/Company/International-Business-Machines-Corp/Ratios/Liquidity/Quarterly-Data>)

Quick ratio does not include inventory in its calculation of current assets. For this reason, it is considered useful measure of liquidity because of exclusion of inventory which is considered a less liquid current asset (Zager, Sacer & Decman, 2012). Again HP has a lower quick ratio than its two main competitors. The company cannot meet its short term financial obligations and pay its debts without liquating inventory. This is also true for IBM. Only Apple has the ability to meet its short term its financial needs without selling its inventory.

Cash Ratio

= Cash and Cash Equivalentents / Current Liabilities

12, 163, 000/45, 521, 000

0. 27

11, 301, 000/46, 666, 000

0. 24

Comparative Analysis

(Source: <http://www.stock-analysis-on.net/NASDAQ/Company/Apple-Inc/Ratios/Liquidity> and <http://www.stock-analysis-on.net/NYSE/Company/International-Business-Machines-Corp/Ratios/Liquidity/Quarterly-Data>)

Cash ratio is the strictest measure for liquidity. It leaves out cash receivable and inventory. This two items form the biggest share of company current assets. For this reason, most companies have a cash ratio of less than 1. The table above shows that HP's cash ratio is less than the same ratio for its competitors. Meaning, its competitors are more likely to receive short term credit to meet their financial need than HP.

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Recommendation

Given that the HP revenues and profits have been reducing for the past years, the paper recommends that investors should hold on their investment in this company because of low returns. The avoidance is also supported by the fact that its liquidity ratio is less than its main competitors, IBM and Apple. Meaning, the company has a reduced ability to meet its short term financial obligations.

References

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