

# Atandt financial statement analysis essay example

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



## **Analysis of Company's 2009 – 2011 Financial Statements**

AT&T is a multinational telecommunications company headquartered in Dallas, Texas USA. Founded by the inventor of telephone himself Alexander Graham Bell it was originally named “ The Bell Systems” in 1875 (Corp. att. com, Web). The company is currently serving over 100 million customers with fixed and mobile communication services along with its paid television and broadband products. AT&T is also one of the largest non-oil company in the United States in terms of market value. It is publicly traded stocks on NYSE, FWB, BMV and Dow Jones listed under the ticker symbol of “ T” for telephone ( Nyse. com, Web). As of 2011, AT&T has posted a 4% increase in net revenue of US\$ 31. 95 billion from US\$31. 4 billion from the previous year (Topics. nytimes. com, 2012, Web). Although the company has experienced a US\$6. 7 billion loses in the fourth quarter of 2011 due to the influx of fixed telephone line subscriptions. They were still able to compensate the losses by acquiring 1. 2 million new wireless subscription contracts (Topics. nytimes. com, 2012, Web).

This paper will discuss and AT&T's financial standing from 2009 to 2011 by analyzing financial data published in the fiscal year 2011. The financial data be compared with Verizon Communication Inc's financial report to determine AT&T's competitive advantage and weaknesses over Verizon in terms of financial performance. The method of analysis will not be limited to vertical, horizontal ratios, solvency, liquidity and profitability, but also the investment quality, market share, financial growth and market opportunities. Financial statements (balance sheet) of the two companies will be used to support

analysis. The objective of this paper is to present a clear picture of AT&T's overall performance as a telecom company and its current competitive position against competitors. This analysis would help potential investors, customers and the telecom industry itself to assess the company's future growth potentials.

## **Background**

AT&T along with other telephone companies in the United States are experiencing an influx of revenue on their fixed telephone line service due to the wide popularity of wireless telephony. However, the emergence of smart phones and particularly iPhone was able to lift up the status of sales revenue for AT&T. Customers flocked in all AT&T stores to get their hands on the new iPhone 4S and its older models, which the company offers to new subscribers for free on a 24 month locked-in contract period. Given the popularity of smart phones, AT&T was able to surpass its previous sales because of the record breaking 7.7 million iPhones and 1.7 million other Smartphones sold in the first quarter of 2011 alone (Topics. nytimes. com, 2012, Web).

Expansion plans were laid upon by the company by taking over T-Mobile USA from Deutsche Telekom at the tune of US\$39 billion. The deal was called off by AT&T due to the anti-trust suit challenge against T-Mobile is costing AT&T s whopping US\$7 billion in breakup and concession fees (Schoenberg, Forden and Bliss, 2011, Web). It could have been the biggest takeover in 2011 and a plan that would reshape the mobile industry in the US. It is also the sole chance for AT&T to steal again the number one spot from Verizon as the largest mobile service provider in the country.

The current trade policy on corporate merger challenges the two telecom companies on the grounds of monopoly and shrinking market competition. Telecommunication is considered as one of the most vital industry in the US and shrinking the market competition would affect the consumer in myriad ways possible (Reardon, 2011, Web). The unprecedented growth of the industry is owed from the technological evolution in communication ranging from high-speed internet, wireless voice and data transmission and the fast paced development in communication gadgets. These developments created new opportunities of creating several service areas that promises huge growth potentials (Zacks Equity Research, 2012, Web). In the US alone the wireless sector has already contributed US\$300 billion in total investment to procure the most efficient communication networks in the world (Zacks Equity Research, 2012, Web).

However, the industry possesses high barriers to entry due to the lack of the public airwaves in the country, making it impossible for smaller carriers to compete with the four largest national players in the United States. Verizon, AT&T, Sprint and T-Mobile takes up the largest market share of the industry in North America AT&T falls under the category of “telecommunications” with a primary SIC code of 4841 and 515210 for the NAICS code. The industry is made up of 180 small and large scale wireless service carriers with AT&T at the top of the list in terms of number of subscribers. The United States market consists of 290 million subscribers or about 90% of the American population in which 27% rely on cell phones at home instead of fixed phone lines. Smart phones on the other hand had 40% growth since its introduction in the market and 31% of cellphone owners actually has a s

smart phone. This growth is expected to further increase in 2015 of up to 67% (Reportlinker. com, Web).

The company's such as AT&T generally rely on fixed line service for revenue during the past decades, but the emergence of wireless technology created an influx in fixed line services. However, the wireless segment has covered the influx representing US\$750 billion in total revenue. The wireless segment is also projected to increase by 3. 9% annually and is expected to reach about US\$1. 2 trillion by the end of 2020. With the help of wireless innovations such as 4G LTE technology creates the a wide array of growth opportunities for the industry. Together with the integration of voice and data technology into a wireless platform makes all the projected growth achievable (Marketresearch. com, Web).

## **Income Statement Analysis**

Vertical

Table 1: Income Statement – Vertical Analysis

Main Company

Comparison Company

INCOME STATEMENT

Net Sales

Less: Cost of Goods Sold

Gross Profit

Other Operating Revenue

Less: Operating Expenses

Operating Income

Generally, AT&T is a service provider, therefore, their income can also be expressed as the operating income and expenses as operating expenses instead of the cost of goods. Since the company is not engaged in manufacturing business, the net operating income is also the same as the gross profit as shown in the table above. The same goes with Verizon, since the two companies are in the same industry. Overall, the data suggest that there is a an obvious decline in revenue in the past three fiscal years. Notice that on AT&T's operating income of 7. 27% in 2011, it significantly dropped by 8. 5% from 15. 25% in 2010. The same pattern of revenue decline can be observed in 2010 as compared to 2009, showing 1. 39% difference from 17. 14% in 2009 to 15. 75% in 2010. To compare AT&T's revenue performance with Verizon, the data suggest that Verizon were still able to manage minimizing the loss, although they too have shown a steady decline in revenue percentage from 2009 to 2011.

## **Horizontal**

Assessing the situation in a horizontal manner provides a different perspective for the two companies. In terms of net revenue AT&T appears to have a more favorable advantage over Verizon from 2009 to 2010. There was a 2. 32% difference in operating income in favor of AT&T in 2009, showing Verizon only gained 14. 82% of total operating income while AT&T

had 17.14%. In 2010 AT&T also went ahead of Verizon in terms of income difference of 2.01%, showing AT&T at 15.75% of net revenue while Verizon only had 13.74%. This variation can be attributed to the amount of operating expenses that the two companies posted both in 2009 and 2010. The above data suggests that in 2009, AT&T had 2.29% less operating expenses as compared to Verizon. The same situation can be observed in 2010 when AT&T posted 2.01% less operating expenses as compared to Verizon. However, the tables have turned in favor of Verizon in 2011. Note that from table#1 the tables have turned when Verizon only posted a 88.38% of total operating expenses while AT&T had 92.73% , which constitutes a variance of 4.35% in favor of Verizon.

Looking at the aforementioned variance in operating expenses, AT&T had a significant increase in expenses in 2011, which appears to be higher than that of Verizon in two years combined. The same thing can be said in terms of revenue when Verizon took ahead of AT&T in 2011 at 4.35% difference, which is higher than the difference made by AT&T in two years combined. Apart from the controversial break-up with T-Mobile one of the reasons that AT&T experienced massive loss is because of the slow Smartphone sales in the third quarter of 2011. This is due to the customers holding back in anticipation of the release of iPhone 4S in the market. In addition, there was an influx of new subscriber contracts in the wired phone service segment, which is also a significant source of revenue for AT&T (Carew, 2011, Web).

## Liquidity and Ratios

Liquidity is defined as a set of ratios that determines the capability of the company to fulfill its short-term liabilities. This is through measurement of the company's liquid assets including those that can be converted into cash to pay for the short-term debt obligations (Qfinance. com, Web). There are several liquidity ratios that can be analyzed using the financial statement. It measures different shift of assets done using different ways of calculating the ratio. The importance of measuring the ratio is to determine the coverage of assets in relation to the amount of short-term liabilities that the company has to pay. In context, the higher the coverage the liquid assets have against liabilities, the more likely that the company would be able to pay off its debt as they become due. To apply it in practice, liquidity ratio has three fundamentals namely, cash, quick and current ratios (Qfinance. com, Web).

Current ration is being used to test the proportion of the assets against liabilities with a simple equation of “ Current ratio = Current assets ÷ Current liabilities”. Cash ratio is almost the same as the current ratio, the only difference is that cash, funds and cash equivalents are being added up and the sum is being tested in proportion to the liabilities. It can be expressed as “ Cash ratio = (Cash + Cash equivalents + Invested funds) ÷ Current liabilities. Lastly, quick ratio wherein all the liquid assets except inventory is being summed up to test proportion against liabilities. The equation can be expressed as “ Quick ratio = (Cash equivalents + Short-term investments + Accounts receivable) ÷ Current liabilities. Applying these principles in analyzing AT&T's financial statement would determine the



capability of the company to meet its obligation and to test its current financial situation in terms of measuring the assets versus the short-term liabilities.

Below is the table showing the comparison of the liquidity ration between AT&T and Verizon to compare AT&T's financial capabilities in terms meeting its obligations against its close competitor. This section entails to provide a clear analysis of AT&T's financial strength because the more positive ratio the findings suggest, the bigger the probability that the company will continue to thrive.

Table: 2 Liquidity Ratios Comparrison

## **Main Company**

Comparison Company

Current ratio

Quick ratio

Cash ratio

It is apparent from the table AT&T was able to significantly increase its liquidity ratio based on the upward trend found in both current and quick rations. However, the cash ratio appeared to be deteriorated in 2010, remained constant in 2009 and 2011. The data has a direct attribution to AT&T's shift in subscriber type. There was a 4. 3% percent addition of high-end plan subscribers due to the increase on smart phone demand and data services in 2011. The increase in current ratio in 2010 from 2009 was

attributed to the higher sales generated from existing subscribers to new data and services. Subscribers contracts are considered as the primary asset of AT&T and the higher demand for advanced handsets and data services reflect an increase in liquidity ratio. The average service revenue per user or ARPU has also increased due to the growing subscriptions in postpaid data services (AT&T, 2011, p. 5-6, Stock-analysis-on. net).

Comparing AT&T's liquidity ratio with the closest competitor Verizon, it appears that Verizon has a higher ratio advantage of all three ratio types. The reason behind that is Verizon's strategic used of assets to generate funding requirements derived from the use of common stocks from time to time. No repurchasing of stocks was made in 2009, thus allowing more reserves in cash and other assets. Its inventory is being carried out at the lowest possible cost to effectively proportion the assets against their liability. All the inputs were based on the lowest level of cost, which is critical in fair value measurements. In addition, the numbers also suggest that Verizon is obviously more capable of paying off its obligations. Verizon's also impose a longer collection period as compared to AT&T. Verizon collects accounts receivable 84 days longer than AT&T. The longer the collection period the more time it allows their customers to pay for their subscription (Kim, Chen and Akioka, 2010, p. 28-33).

## **Conclusion**

In a nutshell, the telecommunications industry is a complex and highly dynamic industry that is driven by innovation and competition. They for any company particularly AT&T to compete strongly in the telecoms market is to

improve their financial standing, strategies and avoid disrupting the cash flow. It is because the comparison of liquidity ratio is generally not in favor of AT&T and they need to do something about it to ensure that they would not have any trouble with their obligations. Furthermore, AT&T's current leadership in terms of the number of subscriptions should be sustained by continually creating business opportunities and that will bring in higher revenue. Capitalizing on the growing popularity of smart phones and wireless data service should be diversified further in order to fully realize their earning potentials. Lastly, AT&T should be mindful of their expenses, which will greatly improve their net profit.

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