

# [Financial analysis: dominoz pizza enterprise inc reports example](https://assignbuster.com/financial-analysis-dominoz-pizza-enterprise-inc-reports-example/)

[Business](https://assignbuster.com/essay-subjects/business/), [Company](https://assignbuster.com/essay-subjects/business/company/)

## Part A:

Vertical Income Statement Analysis:
a)Trend in Net Income:
Referring to the above conducted vertical analysis of the company, we find that over the years, the net profit margins of the company has improved, although a marginal declined was witnessed during the year 2013. By the end of the financial year of 2011, the company had Net Profit Margin of 13. 22%, which later increased to 15. 99% during 2012. This significant improvement in net margins was possible because of reduced percentage of proportion of COGS to total sales which during 2012, decreased from 47. 16% to 46. 70%. Important to note that although during the year 2012, the percentage of operating expenses to total sales increased from 35. 57% to 38. 65%, but the increase in expenses was offset by significant increase in other operating revenue, which increased from 35. 57% to 38. 65%. All such factors contributed in the rise of net profit margins during 2012.
Later during 2013, although the proportion of COGS to Total Sales continued to fall, however decrease in proportion of the operating revenue from 38. 65% to 37. 04% and increase in proportion of operating expenses from 68. 71% to 70. 22%, forced a fall in net income margins from 15. 99% to 15. 19%.

## Vertical Balance Sheet Analysis:

a) Trend in Current Assets:
The trend in current assets has been bumpy throughout the three years of our analysis. During 2011, the current assets of the company accounted for 35. 85% of total assets of the company, which increased to 42. 21% during 2012 and finally, again decreased to 31. 82% during 2013. Of all the current assets, it was the cash holdings of the company and trade receivables which played the major role in determining the trend in current assets of the company. During 2012, the proportion of cash holdings increased from 17. 54% to 23. 01% and the proportion of the trade receivables increased from 10. 76% to 11. 20%, resulting in significant increase in total current assets.
Later during 2013, although the trade receivables, inventories and prepaid expenses increased marginally, however the proportion of cash holdings decreased substantially from 23. 01% to 7. 85%, that resulted in significant decline in the proportion of current assets to total assets from 42. 21%(2012) to 31. 82%(2013).
b)Trend in Current Liabilities:
The proportion of current liabilities to total assets of the company has consistently decreased over the years. During 2011, current liabilities accounted for 31. 90% of total assets, which decreased to 29. 44% during 2012 and 27. 04% in 2013. During 2012, although the proportion of current liabilities decreased from 31. 90% to 29. 44%, but the decreased proportion of current long term debt payments from 9. 41% to 6. 58% and a marginal fall in other current liabilities, supported the overall decrease in proportion of current liabilities from 31. 90% to 29. 44% during 2012. Later during 2013, the trend in the fall of current liabilities continued courtesy decrease in accounts payables, current portion of long term debt and other current liabilities and by the end of the financial year of 2013, current liabilities accounted for only 27. 04% of the total liabilities of the company.
c) Trend in Non-Current Liabilities:
Interestingly, the proportion of non-current liabilities to total liabilities has increased consistently and substantially over the years. During 2011, the proportion of long term liabilities to total liabilities was merely 2. 60%, which during 2012 increased to 3. 80% and 18. 90% during 2013. While the proportion of reserves and deferred liabilities was always marginal, it was the long term debt that constructed the whole trend in the non-current liabilities. During 2011, the proportion of long term debt was only 0. 29%, which increased to 17. 17% during 2013, thus increasing the overall proportion of non-current liabilities to the total liabilities of the company.
d) Trend in Total Equity:
With no preferred stock issued, it was the common equity+ retained earnings, that set all the trend in total equity of the company. During 2011, the proportion of total equity to the total liabilities was 65. 51%, which increased to 66. 76% during 2012. However, during 2013, the proportion was decreased to 54. 06%. The decrease was attributed to fall in retained earnings of the company during 2013.

## Part B: Ratios and their trends

a)Liquidity Ratios:
i)Accounts Receivable Turnover
ii) Current Ratio:
iii) Quick Ratio:
iv) Inventory Turnover Ratios:
b) Long Term Debt Paying ability:
i)Interest Coverage Ratio:
ii) Debt-Equity Ratio:
iii) Operating Cash Flow to Debt Ratio:
c) Profitability Ratios:
i) Net Profit Margin:
ii) Gross Profit Margin:
iii) Return on Assets:
iv) Sales to Fixed Assets Ratio:
v) Return on Equity:
D) Investor Analysis:
i) Operating Cash Flow per Share:
ii) % of Earnings Retained:
iii) Dividend per share:

## Part C:

a) Liquidity Analysis:
Referring to the liquidity analysis of the company, it can be easily inferred that the company lost its liquidity strength during 2013. While most of the ratios indicated a positive trend during 2012, during 2013, the trend was inversed. The current ratio of the company declined from 1. 43 to 1. 18 and the quick ratio also had a fall from 1. 24 to 0. 90.
The lost efficiency was witnessed in inventory turnover and receivable turnover ratios also. During 2013, the former declined from 1. 43 to 1. 18 indicating that now it take more time for the company to sell of its inventory and capital remain tied in stock levels for increased amount of time. Similarly, latter indicates that now it takes more time for the debtors to pay off their bills and thus negatively affecting the liquidity of the company. Overall, the liquidity of the company is not on a sustainable trend as of June, 2013.
b)Profitability Analysis:
As of profitability analysis, although the gross margins of the company continued to increae over the three years of our analysis, however, courtesy increased operating expense and low other operating revenue, the net margins of the company decreased significantly during 2013. Similar trend was witnessed in ROA Fixed Asset Turnover Ratio also, which after increasing in 2012, declined during 2013. Interesting to note that despite of decrease in Net Income, Return on Total Equity increased consistently during 2013. However, this increase was not sustainable as it was fueled by fall in total equity and not because of the increase in net income.
c) Long Term Debt Paying Ability analysis:
Referring to the ratios calculated, it was only during 2013 that the company borrowed a high amount of debt. This resulted in significant increase in debt equity ratio, which increased from 0. 02(2012) to 0. 32(2013). However, the company seems to be solvent as indicated by the increasing trend in Interest Coverage Ratio which has increased manifold over the years. Important to note, that, since 2013 was the first year of high debt financing, it will not be appropriate to comment on the company’ solvency at this earlier stage.
d) Investor’s Analysis:
Investors of the company will not ecstatic with the payouts which have consistently decreased over the years. Furthermore, low operating cash flow per share is another indication of deteriorated operating performance of the company and a probable confidence loss in the investors of the company.

## Works Cited

Dominoz Pizza Enterprise Inc. Annual Report. Dominoz Pizza Enterprise Inc, 2013.