Good example of financial analysis of smith and wesson corporation business plan

Business, Company

Smith & Wesson is an American firearms manufacturing company. It has been in operation since 1952 and most of the innovations in ammunitions are attributed to it. The company is well established and its shares are traded in the New York stock exchange. Its financial health has been consistently good for many years as evidenced by the financial analysis-ratio and cash flow analysis- below for the year 2012. The financial data used is derived from its annual published financial statements (NASDAQ 1).

Financial ratios

Financial RatioYearFormulaComputationRatio

Net profit margin2012Net Profit/Total Sales26. 43÷412= 0. 1: 1

2011-82. 77÷ 392. 3 = -0. 2: 1

201032. 51 ÷ 406. 1= 0. 1: 1

Operating expense2012Operating Expense/Total Revenues165. 16÷412= 0. 4: 1

2011210. 79÷392. 3= 0. 5: 1

2010178. 26÷406. 1= 0. 4: 1

Debt to Equity2012Long-term+ shot-term debt/Total Equity53. 74÷112. 83= 0. 5: 1

2011110÷ 95. 08= 1. 2: 1

201053. 74÷112. 83= 0. 5: 1

Current Ratio2012Current assets + Current liabilities190. 71÷83. 35= 2. 2: 1

2011203. 56÷122. 29= 1. 7: 1

2010190. 71÷83. 35= 2. 2: 1

Discussion

The net profit margin ratio shows that Smith and Wesson make a profit of $0. 1 for every unit of sales despite of having made a loss in the previous year. This recovery is encouraging and id likely to raise the value of the stock. The operating expense ratio is also improving from the last two years. However this improvement in profitability and operations seems to have resulted from the high debt the company has engaged in as evidenced by the debt to equity ratio which has drastically reduced from the previous year. Apparently the amount secured from debt has been used to balance the current ratio. This means that the ability of the company to meet its operational obligation is temporally. This means that eventually the stock price Smith and Wesson will fall. To the investors this is the best time to sell the shares in the company since the price has now improved and is expected to fall soon.

Cash flow analysis

The operating cash flow to net sales is a ratio used to show how much cash is received for every dollar of sales. From the smith & Wesson cash flow statement for the year 2012 the ratio is as follows (NASDAQ 2).

FormulaYearComputationRatio

Operating cash flow/ Net Sales 201237. 37÷333. 47 0. 11

201138. 36÷259. 470. 15

201028. 03÷282. 720. 10

The declining operating cash flow to net sales ratio is precursor that the company performance is at stake (Shim and Siegel 47). This is additional evidence that there is a very high possibility that the company may experience financial constraints if the trend persists. The profits are likely to drop and consequently the share prices will go down. It is therefore the best time sell the company stock held to prevent greater losses in case the corporation runs bankrupt.

Below is a graph showing the trend of historical stock prices.

Bibliography

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Shim, Jae K, and Joel G. Siegel. Handbook of Financial Analysis, Forecasting, and Modeling. Chicago, IL: Wolters Kluwer/CCH, 2007. Print.