

Estee lauder financial ratio analysis

Business



Introduction The purpose of this report is to highlight and assess the financial strength of Estee Lauder. This report will cover Estee Lauder's Profitability, Liquidity, Leverage and Activity Ratios, which will be 19 key ratios.

Secondly, these ratios will be interpreted to evaluate the current performance of the company with its historic figures of prior three years.

Lastly, all these ratios will be compared with Cosmetics and Beauty Industry average and its competitor L'Oreal in 2012. Table # 1 Summary of Key

Financial Ratios of Estee Lauder Estee Lauder Financial Ratios| RATIOS | (MRQ)2012| FY 2011| FY 2010| Industry| L'Oreal SA. Profitability Ratios %| | | | | Gross Profit Margin| 80. 40%| 78.

01%| 76. 53%| 49. 16%| 71. 24%| Operating Profit Margin| 13. 50%| 12. 37%| 10.

13%| 13. 76%| 15. 71%| Net Profit Margin| 8. 82%| 7. 95%| 6. 14%| 10.

75%| 11. 99%| Return on Total Assets| 13. 32%| 12. 07%| 9. 10%| 1.

83%| 9. 58%| Return on Equity| 31. 96%| 30. 62%| 26. 66%| 3.

14%| 16. 72%| Return on Invested Capital| 21. 78%| 19. 95%| 15. 33%| 2.

58%| 14. 61%| Liquidity Ratios| | | | | Current Ratio| 1. 81| 1. 90| 1. 99| 0. 50| 1.

08| Quick Ratio| 1. 35| 1. 13| 1. 19| 0. 39| 0. 67| Inventory to Net Working Capital| 3.

7| 4. 35| 2. 66| 8. 02| 6. 34| Leverage Ratios| | | | | Long-term Debt to Equity| 0.

38| 0. 40| 0. 61| 5. 67| 0. 32| Total Debt to Equity| 47. 13| 46.

02| 62. 50| 7. 14| 6. 61| Financial Leverage| 0. 39| 0. 41| 0.

62| | 1. 52| Equity to Total Asset| 0. 41| 0. 42| 0. 36| 0.

58| 0. 65| Activity (Efficiency) Ratios| | | | | Days Sales Outstanding| 37. 69| 35. 05| 37. 44| 31. 22| 50.

97|

Receivables Turnover| 9. 69| 10. 41| 9. 75| 11. 53| 7.

16| Days in Inventory| 180. 98| 171. 69| 161. 77| 133. 12| 120. 46| Inventory Turnover| 1.

70| 2. 26| 2. 11| 1. 17| 3. 10| Fixed Assets Turnover| 8.

8| 8. 13| 7. 60| 5. 21| 7. 32| Assets Turnover| 1.

51| 1. 52| 1. 48| 0. 27| 0. 80| (Morningstar, 2012; Reuters, 2012) Table # 2
Profitability Ratios Profitability Ratios %| 2012| 2011| 2010| Industry| L'Oreal|
Gross Profit Margin| 80.

40%| 78. 01%| 76. 53%| 49. 16%| 71. 24%| Operating Profit Margin| 13.

50%| 12. 37%| 10. 13%| 13. 76%| 15. 71%| Net Profit Margin| 8.

82%| 7. 95%| 6. 14%| 10. 75%| 11. 99%| Return on Total Assets| 13. 32%|
12.

07%| 9. 10%| 1. 83%| 9. 58%| Return on Equity| 31. 96%| 30.

62%| 26. 66%| 3. 14%| 16. 72%| Return on Invested Capital| 21. 78%| 19.
95%| 15.

33%| 2. 8%| 14. 61%| Every firm is most concerned with its profitability.

Therefore, profitability ratios are frequently used in financial ratio analysis to assess a business's ability to generate earnings as compared to its expenses and other relevant costs (Investopedia, 2012a). According to the table, gross margin of Estee Lauder has been growing steadily in the past three years from 76. 53% to 80.

40%. The gross profit margin shows how efficiently management uses labor and supplies in the production process. Compared to industry average, Estee Lauder is almost double of industry average, which is 49. 16%.

Basically, a gross profit margin of 80.

40% means that for every dollar generated through sales, Estee Lauder has \$0. 80 left over after deducting the cost of goods sold. The date also indicates that Estee Lauder have more money left over to spend on other business operations, such as research and development or marketing. Estee Lauder's operating profit margin has increased by 13. 5% since 2010.

It means that for every dollar generate in income from operations, the company has \$0. 13 left over to cover basic sales costs. The company's

management has been at generating income from the operation of the business.

However, the operating profit margin is below the industry average, which is 13.76%.

The operating profit of L'Oreal is higher than Estee Lauder and industry average. It means L'Oreal has the most effective control of costs and Estee Lauder's sales are increasing slower than operating costs. The net profit margin of Estee Lauder has the similar trend as operating profit margin. The growing number shows that the company is running better than before. The ratio of 8.

82% in 2012 indicates that for every dollar of sales generated, Estee Lauder retains 8 cents in earnings. However, the margin is below the industry average (10.5%) and competitor L'Oreal (11.99%). Estee Lauder's return on total assets is upward trend. Compared to the industry average (1.

83%), Estee Lauder is performing better, and more efficient than other companies in the industry. The high return on total assets indicates that the company is investing wisely and is likely profitable. Return on equity ratios measure the percentage of profit earned on common stockholders' investment in the company. As the table shown, Estee Lauder is increasing on its return on equity. There is a significant success on Estee Lauder because the ratio 13.2% is almost ten times greater than the industry average and double the L'Oreal ratios.

This indicates that for every dollar of shareholder's equity, Estee Lauder is earning returns of 13 cents. Estee Lauder performs well in return on equity, which means the company is really well on reinvesting earnings to generate additional earnings. Return on invested capital is used to assess a company's efficiency at allocating the capital under its control profitable investments. Estee Lauder is trending upward from 15.33% to 21.

78%. Besides that, it is much greater than industry average.

Estee Lauder is generating more amounts of returns through the utilization of their capital as compared to L'Oreal. Table # 3 Liquidity Ratios

Liquidity Ratios	2012	2011	2010	Industry	L'Oreal
Current Ratio	1.81	1.99	0.50	1.08	1.13
Quick Ratio	1.35	1.19	0.39	0.67	0.35
Inventory to Net Working Capital	3.47	4.35	2.66	8.02	6.34

90| 1.99| 0.50| 1.08| Quick Ratio| 1.35| 1.13| 1.

19| 0.39| 0.67| Inventory to Net Working Capital| 3.47| 4.35| 2.

66| 8.02| 6.34| The current ratio measures the extent to which the claims of short-term creditors are covered by assets that can be quickly converted into cash. Estee Lauder's current ratio is decreasing from 1.99 to 1.81.

For every dollar of short-term obligations, Estee Lauder has \$1.81 available in assets that can be converted to cash in the short term. Both Estee Lauder and L'Oreal's current ratios are far greater than the industry average, which means these two companies are capable of paying their short-term financial standing and Estee Lauder is performing better. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid asset. The quick ratio is more conservative than the current ratio, a well-

known liquidity measure, because it excludes inventory from current assets (Investopedia, 2012b).

In 2011, the quick ratio of Estee Lauder has decreased a little bit. For 2012, the quick ratio of Estee Lauder is 1.35, which means that for every dollar that of their short-term obligation, the company has \$1.35 available in assets to cover this debt. Compared to the industry and L'Oreal with quick ratio of 0.39 and 0.

67, Estee Lauder is in a better position to pay off their current obligations. Inventory to working capital ratio show the efficiency of a company's operation. A low value of 1 or less of inventory to working capital means that a company has high liquidity.

The table indicates that the inventory to working capital ratios are all relevantly high in cosmetics and beauty industry. The industry ratio is 8.

02, which is four times greater than Estee Lauder. Estee Lauder's inventory to net working capital ratio is 3.47 for 2012, which means that \$3.47 of their funds is tied up in inventory for every dollar of working capital. It shows that Estee Lauder is carry less inventory in stock compared to other companies in the industry.

It is not favorable for management because excessive inventories can place a heavy burden on the cash resources of a company (Wikicfo, 2012).

Table # 4 Leverage Ratios Leverage Ratios| 2012| 2011| 2010| Industry|
L'Oreal| Long-term Debt to Equity| 0.38| 0.40| 0.61| 5.

67| 0.32| Total Debt to Equity| 0.47| 0.46| 0.62| 0.

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07| 0. 06| Financial Leverage| 0. 39| 0. 41| 0. 62| N/A| 1.

52| Equity to Total Asset| 0. 41| 0. 42| 0. 36| 0. 58| 0. 65| Leverage ratios are used to calculate the financial leverage of a company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations.

Estee Lauder's long-term debt 0. 38 is decreasing in the past three years, compared to the high ratio of industry average 5. 7. For every dollar raised in equity to finance their assets, an additional 38 cents in debt is raised to finance their assets. On the other hand, the total debt to equity ratio has a decrease in 2011 but increase in 2012. It indicates that Estee Lauder's total debt has far more than L'Oreal and industry average.

All the ratios are less than one; it means that most of the companies' assets in the industry are financed through equity. Estee Lauder with the higher debt to asset ratios is highly leveraged, and could be in danger if creditors start to demand repayment of debt.

Estee Lauder's financial leverage is 0. 39 for 2012 and L'Oreal is 1. 52.

It means that L'Oreal possibly has more difficulty in paying interest and principal while obtaining more funding than Estee Lauder. Equity to total assets ratio is a great measure of Estee Lauder's leverage that measures the proportion of the total assets that are financed by stockholders and not creditors. . Estee Lauder's equity to total assets ratio is 0. 41 in 2012 and has decreased 0. 01 from 2011.

This means that for every dollar of equity financing, Estee Lauder generates \$0.41 return on their assets.

Table # 5 Activity Ratios Activity (Efficiency) Ratios| 2012| 2011| 2010|
Industry| L'Oreal| Days Sales Outstanding| 37.69| 35.05| 37.

44| 31.22| 50.97| Receivables Turnover| 9.69| 10.41| 9.75| 11.

53| 7.16| Days in Inventory| 180.98| 171.69| 161.77| 133.

12| 120.46| Inventory Turnover| 1.70| 2.26| 2.11| 1.17| 3.

10| Fixed Assets Turnover| 8.18| 8.13| 7.60| 5.21| 7.

32| Assets Turnover| 1.51| 1.52| 1.48| 0.27| 0.

80| Activity ratios are measures of how well assets are used. It helps to know how effectively the company is at putting its investment to work.

The greater the turnover, the more effectively the company is at producing a benefit from its investment in assets. Estee Lauder's days sales outstanding for 2012 is 37.69, which is more than 2011 and lower than L'Oreal who has 50.97 on its days sales outstanding.

It indicates that cash coming back to Estee Lauder is quicker, increasing the ability to invest the funds in productive assets. Receivable turnover is the ratio of net credit sales to accounts receivable. This ratio indicates how many times in the period credit sales have been created and collected. Estee Lauder's receivable turnover is 9.9, which is lower than the industry average 11.53 and higher than L'Oreal 7.

16. Therefore, every dollar generated in sales, Estee Lauder has \$0.09 left to cover average accounts receivable costs. The low ratio implies that the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm (Investopedia, 2012). The number of days inventory is how long the inventory stays with company, whereas the inventory turnover is the number of times that the inventory comes and leaves- the complete cycle- within a period.

Estee Lauder has the highest days inventory, which is 180.

98 days. The inventory turnover of Estee Lauder is 1.70. It is lower than L'Oreal but higher than the industry average. The higher inventory level means that, compared to other companies in the industry, Estee Lauder implies either strong sales or ineffective buying. The fixed-asset turnover ratio measures a company's ability to generate net sales from fixed-asset investments – specifically property, plant and equipment – net of depreciation.

The fixed-asset turnover of Estee Lauder is 8.8, which is higher than both industry and L'Oreal. It means that \$8.18 of sales is generated for every dollar investment in fixed asset. A higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues. Asset turnover measures a firm's efficiency at using its asset in generating sales or revenue.

Estee Lauder keeps the leading in this industry, which is 1.51. It means that sales generated \$1.51 for every dollar's worth of assets. The higher is the better.

It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

Extra Ratios Table # 6 Growth Rates (Morningstar, 2012) The table above shows that the revenue, operating income, net income and EPS% are in a decreasing trend especially in recent years. One of the reasons might be the recession in the global economy. Another reason is the increasing competitors in the industry. But there is no doubt that Estee Lauder is one of the leading companies in Cosmetics and Beauty Industry.

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Appendix A Income Statement of Estee Lauder Balance Sheet of Estee Lauder Statement of Cash Flows Estee Lauder Appendix B Statement of Cash Flows of L'Oreal Group Income statement of L'Oreal Group Balance Sheet of L'Oreal Group