

Evaluate the asset, debt, and equity structure of lucent technologies

[Technology](#)



The points related with the asset, debt, and equity structure of Lucent Technologies that was found in the common size statement are stated below: ? It is clearly evident that the assets of the Lucent Technologies have declined significantly between 2003 and 2004. ? It is a good sign that company maintains its current assets at 49% both in the year 2003-04 with respect to its total assets. Although the business environment is worst in condition but the management of the Lucent Technologies hasn't adopted an effective asset management policy in order to uplift its total assets.

? Inventories have increased slightly from 4% to 4.8% in the year 2004. Due to the activity in the year 2004, working capital has increased in response to which inventory has also increased. The increase in inventory volume makes a significant impression over the growth and the future of the company. The slight improvement of 4.9% in the year 2004 in the inventory discloses the fact that management is working on better inventory management policies (Annual Report, 2004).

? Company is primarily financing their activities through debt and it is good sign that proportion of debt has decreased from 31% to 26%. It is also evident that Lucent realized that high debt proportion also raises the distress cost which makes a negative impact on the net income of the company (Annual Report, 2004). ? Shareholder equity has slightly shrunk in the in the year 2004 in additional paid-in capital and accumulated deficit, respectively.

The sole reason behind which is the ineffective business conditions that makes its deficit more volatile. Lucent Technologies is not heavily dependent on equity financing which has made a positive impression on the stock prices and also there is a hint that in the years to come the management of the <https://assignbuster.com/evaluate-the-asset-debt-and-equity-structure-of-lucent-technologies/>

company might issue less number of shares in order to overcome its deficit problem. 3. What concerns would investors and creditors have based on only this information?

The concerning points of both investors and creditors are stated below: ? The most worrying part for both the stake holders is the decrease in cash and cash equivalents which makes an impression on the company's cash operating cycle and it indicates that the management has not opted for the right strategy towards managing its working capital. ? Another thing is that Lucent Technologies is losing value of their assets which indicates that company can't utilize its assets properly and some of it remains idle.

Moreover, the assets of Lucent Technologies are not in a position where they can generate more revenues or profit which in the end makes an impression on the company's profit, company's credit worthiness, stock etc. ? Although the company is less dependent on debt in the current year this is a good sign for the company's future perspective but in the long run the financial and leverage cost might manipulate the company's net income. This will affect the company's goodwill and makes the accumulated deficit more tentative.

4. What additional financial and non-financial information would investors and creditors need to make investing and lending decisions for Lucent Technologies? The information is stated below: ? Adopting strategies that can positively impact the sales and net income because in this particular line of business changes come in very quickly, and new products and services need to be introduced sooner than later. ? High cost of sales make a negative impact on the gross profit and also increases the variable and fixed costs, which cuts down the profit. ? Cash reserve is decreased primarily
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because of expansion in business volume and also because of debt financing.

? Company should try to ensure that no asset remains idle, or at least maximize their asset utilization. ? Lucent Technologies' negative point is its operating cycle which does not help in boosting the business volume. Lucent should opt for strategies to generate a more rapid operating cycle. ? Government's policies and tax rates, competitors' strategies also impacts the business, so the management should chose and decide wisely as business operating policies makes an impression on both, the company itself and the stake holders. Reference Lucent Technologies Inc (2004). Annual Report