

# Good example of company overview essay

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



TELUS is an innovative telecommunications company of Canada. It began its journey from the provinces of Alberta and British Columbia; going on to become the country's second largest telecommunications company. Today, they provide a range of internet solutions for home, workplace or on the move. They provide a wide range of communication products and services such as data, Internet Protocol (IP), voice, wireless, entertainment and video.

We would like to provide you with the brief history of TELUS to highlight major landmarks in its recent history. In the year 2009, it acquired Black's Photography, a chain of small format retail outlet, to increase its reach in Canadian market. In the same year, it launched 3G+ network, and completed it by Nov 5th. In the year 2010, TELUS Health Space became the first platform in Canada to achieve Canada Health Infoway pre-implementation certification. That year, it was also recognized as the most outstanding philanthropic organization in the world.

In the year 2011, TELUS became the first Canadian TV service to offer a Facebook application on its TV platform. Also, this year, it launched 4G+ wireless network to offer download speed of up to 42 Mbps. Lastly, in 2012, it launched the 4G LTE wireless network. Also, this year, via its Optic TV, it offered the customers to control both live and recorded TV using hand gestures and voice command – which is one of a kind in the world.

## **Horizontal Analysis of Income Statement and Balance Sheet**

Horizontal analysis is a percentage change in comparative statements. It is used to compare the data from within two or more periods, side-by-side. Put differently, it is intended to show the change in certain accounts – such as

income statement and balance sheet – from two different accounting periods. It is very helpful in looking at the trends in a company's income. Here we have examined the trends from 2009 to 2012, which is spread across three years.

Upon analyzing the Operating revenue in the Income statement, we observe following trends; from 2009 to 2010, it increased by 1.93%; from 2010 to 2011, it increased by 6.17%; and from 2011 to 2012, it increased by 5.03%. We observe a remarkable increase from 2010 to 2011, which was dampened a bit in 2012. Next, upon analysis of the EBITA, we find; from 2009 to 2010, it increased by 4.55%; from 2010 to 2011, it increased by 3.50%; and from 2011 to 2012, it increased by 5.13%. Therefore, we find that even though the Operating revenue dampened a bit from 2011 to 2012, the same was not witnessed by EBITA.

In the income statement, we then examined the Income Tax and Net Income. In case of Income Tax, we find: from 2009 to 2010, there is an increase by 65.2%; from 2010 to 2011, there is an increase by 12.24%; and from 2011 to 2012, there is an increase by 21.54%. What really stands out here is the remarkable jump in income tax from 2009 to 2010. Finally, examining the Net Income for trends, we find that; from 2009 to 2010, it increased by 5%; from 2010 to 2011, it increased by 15.50%; and from 2011 to 2012, it increased by 8.47%. Much like the Operating Revenue, here also, the gain from 2009 to 2010, was dampened in 2011 to 2012.

Next we move on to the horizontal analysis of the Balance Sheet. Upon analyzing the Capital Assets for trends, we find that; from 2009 to 2010, it 2.46%; from 2010 to 2011, it increased by 3.93%; and from 2011 to 2012, it

increased by just 1.65%. The increase from 2011 to 2012 has been less compared to the previous years, but it is an increase nevertheless. The next parameter, a very important one, is accumulated depreciation and amortization. Upon analyzing it, we find that; from 2009 to 2010, it actually decreased by 1.21%; then increased sharply by 5.89% from 2010 to 2011; and then had a further moderate increase by 1.62% in the year 2011 to 2012. This is a relief as the sudden jump in this expense is not a healthy sign.

Next, coming on to the next parameter that is total assets, we find that; from 2009 to 2010, it increased by 2.11%; from 2010 to 2011, it increased by 1.56%; and from 2011 to 2012, it increased by 2.58%. Further, upon analysis of the Net Debt, we find that; from 2009 to 2010, it decreased substantially by 6.06%; from 2010 to 2011, it increased marginally by 1.31%; and then again it decreased substantially by 5.49%. Next, coming to the parameter of total capitalization, it was found that; from 2009 to 2010, it decrease by 2.07%; from 2010 to 2010, it decreased by 1.28%; and from 2011 to 2012, it continued to decrease by 1.65%.

Finally, we examine the long-term debt and Owner's equity component of the balance sheet. Analyzing the long-term debt, we find that; from 2009 to 2010, it reduce substantially by 14.47%; from 2010 to 2011, it increased marginally by 5.74%; and from 2011 to 2012, it increased by 3.69%. And finally, analyzing the owner's equity, we find that; from 2009 to 2010, it increased by 2.72%, from 2010 to 2011 it decreased by 3.44%; and from 2011 to 2012 it increased again by 2.30%.

## Ratio Analysis

We begin with examining the liquidity ratios, such as: current ratio, quick ratio, and cash to current liability ratio. A firm that intends to remain a viable business entity must have enough cash on hand to pay its bills as they come due. Therefore, the firm must remain liquid. One of the ways of determining whether this is the case is to examine the relationship between a firm's current assets and approaching obligations. We begin with examining the current ratio of TELUS. This ratio is interpreted to mean that to satisfy the claims of short-term creditors exclusively from existing current assets. We find that the current ratio was; 0. 532 for the year 2011; and 0. 627 for the year 2012. The industry average for the current ratio is \$0. 42, so, this place TEUS in the better half of the industry. However a more stringent liquidity measure would be quick ratio. This ratio is sometimes called the “ acid test”, is a more stringent measure of liquidity than the current ratio. By subtracting inventories from current assets, this ratio recognizes that a firm's inventories are often one of its least-liquid current assets. Upon analysis we found the quick ratio to be; 0. 382 for the year 2011; and 0. 468 for the year 2012. Going even further, we determine the cash to current liability ratio. This ratio even eliminates the account receivables, thereby, relying exclusively on the cash at hand. Upon analysis we found the ratio to be; 0. 011 for the year 2011; and 0. 030 for the year 2012.

Next, we will examine the Profitability ratios; dividend payout; return of common equity; and return on assets. They demonstrate how well the management is making investment and financing decisions. If a firm is unable to provide adequate returns in the form of dividends and share price

appreciation to investors, it may be unable to maintain, let alone increase, its asset base. Examining the dividend payout, we find that; in 2010 it was 64%; in 2011, it was 62%; and in 2012, it was 63%. This ratio indicates the percentage of a firm's earnings that are paid out as dividends. This shows that TELUS has been consistently been giving dividends, and so, has been profitable. This further shows firms with stable earnings are more likely to pay out a greater proportion of their earnings as dividends than are companies with more volatile earnings. Next, upon the analysis of return of common equity, we find that; in 2010, it was 13.8%; in 2011, it was 15.5%; and in 2012, it was 17.0%. It measures the rate of return that the firm earns on total equity. Because only the total equity appears in the denominator, the ratio is influenced directly by the amount of debt a firm is using to finance assets. This is a very encouraging sign, which shows that the company has been increasingly profitable. Among the profitability ratios, we next examine the return on assets; in 2010, it was 13.6%; in 2011, it was 12.8%; and in 2012, it was 15.7%. This measures the operating profit rate of return for a firm or its basic earning power. This ration has been increasing over these years, even though it marginally dipped in 2011.

Next, we will analyze the debt and coverage ratios; EBITDA interest coverage ratio; net debt to EBITDA ratio; and net debt to total capitalization.

Examining the EBITDA interest coverage ratio, we find that; in 2010, it was 7.1%; in 2011, it increased to 10.1%; and in 2012, it further increased to 12.1%. Next, upon examining the net debt to EBITDA ratio, we find that; in 2010, it was 1.8; in 2011, it remained static at 1.8; and in 2012, it came down to 1.6. Finally, upon examining the net debt to total capitalization, we

find that; in 2010, it was 46. 9%; in 2011, it increased marginally to 48. 1%; and in 2012, it dropped back again to 46. 2%.

## **Recommendations**

Based on the above analysis, I would highly recommend this company as a medium to long term investment. First of all, broadly speaking, its operating revenue has been consistently increasing since 2009. This implies that the customers are willing to pay for its services. Even if we take into account its short-term commitments, in form of EBITA, we find that it is still increasing. Also, as the income tax it has been paying over the years has also increased. I don't see anything negative in it, as it only shows they have sufficient profit to pay higher taxes. Finally, the trend in net income follows that in operating revenue. As both of them follow closely, it is apparent there is no other complicating factor. Overall, a good sign of financial health over past three years.

A long term view can also be observed from horizontal analysis of the balance sheet. We find that they capital assets are increasing. This hints towards a growing company, which is investing its revenue in assets. This says a lot about the company that has future plans. Future plans also mean future revenues. Next, another significant factor is the decrease in the depreciation and amortization. This also means that they are gradually paying off their debt. If this trend continues, it would mean that they will have more revenue towards profits.

Further, we find that their total assets have been gradually increasing, but not by a huge percentage. This could be due to the fact that TELUS is already a highly capitalized company. Any increase nevertheless, is

noteworthy. Next, the debt went down in 2011, but increase marginally in 2012. From this I infer that they paid off some debt. That is a healthy sign as it shows they have sufficient revenue to pay it off. Later in 2012, they again took up debt, but not by a huge margin. This could be to finance future projects. All this is healthy in context of the fact that their total capitalization remained relatively stable. Finally, their long-term debt decline, and so did owner's equity. This means they have more revenue to share towards shareholders, which is a very encouraging sign.

I would consider TELUS a very safe investment even in short-term. They are more liquid than the companies in general, and therefore, it is reasonable to assure that they'll be able to pay their debt and offer dividends. Their quick ratio, which is also called "acid test", is consistently positive. It is positive, even if we keep away the account receivables. Their profitability ratios are also encouraging.

Therefore, I would highly recommend investing in TELUS.

## **Works Cited**

Cyr, D., Kahl, A. L., Rentz, W. F., Moyer, R. C., McGuigan, J. R., & Kretlow, W. J. (2004). Common Shares: Characteristics and Valuation. In V. V. Kitowski (Ed.), *Contemporary Financial Management* (pp. 225 - 226). Canada: Thomson Nelson.

TELUS. (n. d.). Financial review. Retrieved from TELUS: [http://about.telus.com/investors/annualreport2012/financial\\_review/](http://about.telus.com/investors/annualreport2012/financial_review/)

TELUS. (n. d.). TELUS History. Retrieved from TELUS: [http://about.telus.com/community/english/news\\_centre/company\\_overview/company\\_history](http://about.telus.com/community/english/news_centre/company_overview/company_history)