Icn lease proposal

Finance

I had hoped to make an iron-clad case for Pharmafin to agree to ICN’s lease proposal, but as a salesperson I regret my inability to do so, after studying ICN’s financial statements and ratios and comparing them with Merck. The impression that I have after seeing the common statements and percentage changes are very different from that I had on meeting their personnel on their site! I now believe that we should offer ICN a discount for payment against delivery, with an additional incentive for an advance, and diplomatically side-step the lease proposal. ICN’s long-term debt has risen 44% in 2001 over the previous year.

Notes payable and the current portion of long term debt have increased more than 5 fold. Cash flow from operations to total liabilities have dropped to 0. 15 from 0. 25 in 2000, and is half that of Merck. Cash and cash equivalents have risen by more than a 100% in 2001. ICN’s worst sales forecast for 2002 is below actual sales in 1999. ICN’s current and quick ratios are actually better than those of Merck: the company seems intent on paying suppliers on time! ICN’s 2001 EBIT is comparable to Merck’s, but the extraordinary income is high in this year and presumably not sustainable.

ICN has increased its Research spending by over 60% in 2001: perhaps it senses some changes in its market segments. It appears to me in any case, that the substantial funds that ICN has mobilized in 2001 can be best deployed in part by paying Pharmafin in time, if not in advance. I will need your help to structure a proposal that makes such a commitment attractive for them as well as for us. We may have to regrettably forego the business should ICN insist on leveraging itself further by leasing equipment from us.