

# Good financial analysis: omega healthcare investors inc research paper example

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



**Answer A)**

Revenue/Operating Expenses/Operating Income/Net Income Analysis:

Referring to the previous five year financial statements of the company from the year 2009-2013, the revenue of the company has increased consistently over the years from \$197 Million during 2009 to \$419 Million during 2013.

However, as displayed in the graph below, the trend in net income has been downside-up. The Net income of the company reduced significantly during 2009 -2011 from \$82 Million (2009) to \$53 Million (2011).

Interestingly, the reason for fall in net income during those years was significant increase in operating expenses. For Instance, during 2011, operating expenses accounted for 53% of the total revenue. Later, with fall in % of operating expenses as total revenue and increase in operating income of the company, the net income of the company increased and ended at the latest figure of \$173 million during 2013.

**Answer b)**

The below stated data indicates the profitability and efficiency of the management of the company to use their assets to generate revenue for the company.

As already accessed in the previous discussion that Omega Health Investors, owing to high proportion of operating expenses has low profit margins during 2009-2011. The same is evident in the profit margin percentage of the company which decreased significantly from 37% during 2009 to 16. 24% during 2011. However, in the later years the company managed to control

the operating expenses and as a resultant, the net margins of the company improved to 41. 2% during 2013.

**The shareholders of the company will finally be satisfied with Return on Equity increasing during the latest years.**

As for the efficiency over management of assets, the Asset Turnover has remained consistent at 0. 13 over the years indicating that the management was not able to generate more revenue from the total assets.

**Answer c)**

The data below will help us in analyzing the liquidity position of Omega Healthcare Investors Inc:

Days of Cash in Hand:  $(\text{Cash} \times 365 / (\text{Operating Expenses} - \text{Annual Depreciation}))$

The current ratio of the company decline during 2009-2011 courtesy poor financial performance. The similar affect was witnessed in the working capital position of the company. However, during 2012 and 2013, the working capital position of the company improved significantly and ended at \$107 Million during 2013.

**Answer d)**

Referring to the solvency ratios of the company, i. e. Debt-Equity Ratio and Interest Coverage Ratio during 2009-2013, we find some interesting conclusion relating to solvency position of the company.

The above data indicates that during 2009-2011, the company was under poor solvency position as while the debt-equity ratio of the company increased consistently, indicating that the company is increasing the

proportion of debt in its capital structure, on the other hand, interest coverage ratio of the company was decreasing at the same time. Thus, this could lead to a conclusion that those years were indeed tough for the company.

However, during the latest two years, i. e. 2012 and 2013, the company managed to decrease its debt equity ratio from 1.80 to 1.56 but at the same time increased its interest coverage ratio, sending the signal to the investors that it has strong solvency roots and can honor its long term obligations.

### **Answer e)**

Du-Pont Equation:

As indicated by the above data, that during the year 2010 and 2011, the major source of ROE was net profit margins but consistent increase in financial leverage was an area of concern. However, over the years, while the net profit margins of the company has increased, the decrease in financial leverage indicates that the Return on Equity of the company is sustainable.

### **Answer f)**

Well known Audit Firm, Ernst and Young are the independent auditors of Omega Healthcare Investors. The firm has conducted the audit of the financial statements of the company for the three financial years, with the latest one ending on 31st December, 2013. The audit was conducted as per audit standards of Public Audit Accounting Standards.

The auditors of the company have provided an unqualified opinion to the

company. This means that the auditors agree that the financial statements of the company provide a fair view of the financial position and are in conformity with US generally accepted accounting principles. Furthermore, the related financial statement schedules also provide fair information in all material aspects related to the basic financial statements.