

# [Henkel financial statement analysis](https://assignbuster.com/henkel-financial-statement-analysis/)

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I. Background 1. History and Location Henkel AG & Co. KGaA is a multinational company headquartered in Dusseldorf, Germany. Founded in 1876, Henkel is a global leader in the consumer and industrial businesses with brands such as Persil, Schwarzkopf and Loctite. Headquartered in Dusseldorf, Germany, Henkel employs 48, 000 people worldwide and is ranked among the Fortune Global 500.

The company’s preferred shares are listed in the German stock index DAX. In North America, Henkel has about 5, 700 employees in more than 50 facilities across the U. S. and Canada. Henkel has grown rapidly in North America during the past decade and now generates about 20 percent of worldwide sales in this region .

According to the sources, at the beginning of the Company’s history there was 28 year-old merchant who was interested in science – Fritz Henkel. On September 26, 1876 he and two partners founded the company Henkel & Cie in Aachen and marketed his first product, a universal detergent based on silicate. During the following years, this German family of entrepreneurs and thousands of their employees built Henkel into a global company. 2. GovernanceThe controlling company of Henkel is Henkel AG & Co.

KGaA, headquartered in Dusseldorf. Responsible corporate management and controlling, aimed at a long-term increase in shareholder value, has always been a part of Henkel’s identity. Taking into account the special aspects specific to its legal form and articles of association, Henkel AG & Co, KGaA complies with the main recommendations of the German Corporate Governance Code, with two exceptions. They do not list the individual shareholdings of members of the Henkel family on the Supervisory Board or on the Shareholders’ Committee. The remuneration of the Management Board also complies with its guidelines. Contribution to Shareholder Value With efficient processes, innovative products and comprehensive risk management, Henkel’s sustainability strategy contributes to a long-term increase in the value of the Company.

The increasing interest of international capital markets in ethical investment funds and general CSR topics as another clear signal for the economic significance of sustainability. Risk management – Safeguarding values Group-wide risk management makes an indispensable contribution to value-oriented management at Henkel. It enables business opportunities to be optimally utilized and possible risks to be countered at an early stage. Independent safety, health and environment audits are an important component of this function. For example, if the neighborhood or the environment is endangered by an operational incident, this entails much more than high, unexpected costs.

Company; s reputation will suffer as well. For a company like Henkel, which generates around 70 percent of its sales with consumer brands, this is a crucial factor. Consumers and customers can decide on a daily basis whether or not to buy Henkel products, thus influencing Henkel? economic success. This is yet another reason why integrated management and the global Code of Conduct are of major importance for the future viability of the Company. II.

Business Vision Henkel is a leader with brands and technologies that make people’s lives easier, better and more beautiful. Values are the basic unstated beliefs of the people working in an organization. The values of the people of Henkel are stated below. They are: – customer driven – develop superior brands and technologies – aspire to excellence in quality – strive for innovation – embrace change are successful because of the employees – are committed to shareholder value – are dedicated to sustainability and corporate social responsibility – communicate openly and actively – preserve the tradition of an open family company III. Business Activity Henkel operates worldwide with leading brands and technologies in three business areas: •Laundry & Home Care •Cosmetics/Toiletries •Adhesive Technologies It is a secondary sector organization.

Henkel comes under chemical industry. It consumes large quantities of energies and requires factories and machinery to produce its products. Henkel has a product range comprising of detergents, household cleaners, cosmetics, toiletries, adhesives and industrial chemicals. Laundry and home care- laundry detergents (Persil, Vernel and Dac), dish washing products (Pril, Purex and Mas), fabric softeners (Lance, Abaya), floor and carpet care products, glass cleaners, insecticides for household applications, kitchen cleaners and scouring agents. Cosmetics/toiletries- soaps (Fa and Pure & Natural), dental care and oral hygiene products, shampoos and conditioners (Schauma, Pure & Natural and Gliss Kur), skin care products (Dial, Abeer and Right Guard), hair colorants and shower gels.

Adhesives technologies- sealants (LF600, OSI and SISTA), glue sticks, glue rollers( Pritt, Pattex and Loifol), adhesive tapes, waterproofing products, flooring adhesives, wallpaper pastes coatings, surface treatment products, industrial cleaning agents, soldering pastes, lubricants and wood glues. IV. Market Share and Main Competitors Henkel has been active in the field of detergents and household cleaning products for over 100 years. It has been one of the pioneers in the world. People in 125 countries around the world trust in brands and technologies from Henkel. And that makes Henkel one of the most internationally aligned companies in Germany.

The Henkel group holds the largest share of the German detergent market. Henkel’s main competitors in its cleaning division are Unilever, Procter & Gamble and Reckitt Benckiser. In its beauty division, its main competitors are Unilever, Procter and Gamble and L’Oreal. In its chemical and adhesive division, it has many competitors, but the main multinational competitors are Bostik and H. B.

Fuller. Company operates in an area of business which has seen intense competition not just from the big multi-national players but also from aggressive local players. The efficiency and effectiveness measures put in place during 2009 will allow Henkel to better withstand the competitive pressures in its line of business. Company remains confident that it is putting in place the capability measures which are important for the short term and long term growth of the Company. V.

Business Strategy Strategy is a course of action to achieve an objective. The Company’s human resources strategy focuses on attracting the best junior managers, offering them attractive career perspectives and actively developing their skills. Henkel’s growth strategy is to drive growth through innovation and strong brand, expand the world market position from a strong European and North American base and develop new acquisitions and growth potentials in all regions of the world. To achieve the objective of profitability, the company follows the strategy of expansion and further strengthening of core businesses . VI.

SWOT Analysis STRENGHTS •Large capital •Good labor •Wide range of products •Good repute in customers •Expertise •Quality products WEAKNESS •No access to cheap resources •Chemical industry (face criticism from pressure groups) High cost •Respond slowly to problems •Large firm- weak in some areas due to huge span of control OPPORTUNITIES •Developing marketing •Removal of barriers •Expand product range •Competitors slow to adapt changes •Web marketingTHREATS •Competitors’ new product •Price wars •Changing customer tastes •Political instability •Religious factor VII. Performance of the Business Cash Flow Statement Analysis Henkel is committed to achieve profitable growth through innovation, strong and competitive brands, and good, solid relationship with their customers. Due to the fact that CF from operations is sensitive to 6 (six) factors, every factor should be taken into account to analyze the CF from operations variation (Appendix 1). Cash from sales is sensitive to days of receivables and sales growth. According to the Company’s reports, Company had 2. 6% a sales growth in 2007, 8.

1%, -3. 9% and 11. 2% in 2008, 2009 and 2010 years respectively. Days of receivables were almost the same throughout 4 years period that is: 47 days in 2007, 48 days in 2008, and 46 days in 2009 and 2010. It means that every 47 days in 2007 company collected money after selling its goods, and only 46 days in 2010.

So, Henkel actually didn’t sell products on credit much. Picture 1 If we take a look at the days of payables, we can notice the following: in 2007 days of payables were 77 days, in 2009 – 96 days, in 2010 – 101 days. Suppliers of Henkel gave enough days to pay for the goods and services, and it was due to the fact that these companies trusted Henkel. However, as we know, it’s a bad sign for the company itself. Because, later it could lead to the loss of discounts, Henkel could buy more products from the suppliers.

Total operating cycle of the Henkel in 2007 was 114 days, of which 77 days had been financed by the supplier, and 37 days by the company. In 2009 operating cycle was 106 days, of which 96 days had been financed by the supplier, and only 10 days by the firm. From one hand it is good, because company can pay money back in 96 days, for instance and financing cost is borne by the supplier. From the other hand, company still has storage and expirations costs, and high amount of days of payables can cause Henkel to buy more products from its supplier. Days of inventory were 67 days, 66, 60, 66 days in 2007, 2008, 2009 and 2010 respectively. company kept its ready for sell products within 66 days in general. So, company accrued high storage, financing and expired costs. Probably, products were not competitive enough. Henkel should keep on innovating its products because of the main competitors as P&G, Unilever, L’Oreal. In fact, Henkel had a long inventory turnover which can run into liquidity problems because it is unable to alleviate its obligations. Because business operations differ in each industry, it is always more useful to compare companies within the same industry.

If Cash flow from operations is positive it means that company is able to pay its financial obligations. Henkel generated 1 407 mln Euro from its operating activities in 2007 (Appendix 1). Then it has decreased to 633 mln in 2008; in 2010 Company had positive Cash flow in the amount of 1 484 mln Euro. According to the Cash flow from Investing activities calculated based on the Balance Sheet and Income Statement data in 2007 it was 661 mln Euros, in 2008, 2009, and 2010 the amounts were -2491, 307, -393 mln Euros respectively (Picture 2). We can conclude that Henkel had a good investment strategy only in 2008 and 2010, because Company used funds in investing activities. Picture 2Henkel’s financing policy was the following.

In 2007 Company used 684 mln Euros for financing its operating cycle, which is an appropriate action; we can see it from Cash flow from operations. In 2009 and 2010 company financed 630 and 460 mln Euros. In 2008 Company received Cash from financing activities in the amount of 479, and it did use these funds for investment purposes. Let’s further analyze the statement of Cash flows by taking a look at the ratios as: Interest Coverage Ratio, Cost of Capital Coverage Ratio, Total Liabilities Coverage Ratio, Cash Flow Yield, Cash Flows to Sales, Cash flows to Assets. According to calculations presented in Appendix 4, Interest coverage ratios of the company were 4. 1, 0.

7, 4. 8, and 4. 6 in 2007, 2008, 2009, 2010, respectively. Which means that Henkel’s operating activities could cover 4. 6 times its financing cost in 2010. Henkel’s Cost of capital coverage ratios were 2.

23, 0. 40, 2. 53, 2. 24 (Picture 3), this ratio tells us that Henkel could cover its financing cost 2. 24 times in 2010. Picture 3 Henkel’s total liabilities coverage ratios were: Year2007200820092010 Total liabilities coverage ratio = CFO / Total financial obligations paid0.

350. 060. 310. 6 We can conclude that Company was not able enough to cover its total liabilities by Cash flow from operation. Moreover, we should consider the fact that Company booked new loans to pay for its financial obligations. Cash flows yield tells us that operating activities generated only 18 % less cash than operating income in 2007 and in 2010 operating activities generated 38% less cash than operating income (Appendix 4).

Only in 2009 operating activities generated 16% more cash than operating income. Year2007200820092010 Cash flow yield = CFO / Operating Profit0. 820. 311. 160. 62 Liquidity AnalysisCurrent Assets over Current Liabilities ratio is mainly used to give an idea of the company’s ability to pay back its short-term liabilities with its short-term assets (cash, inventory, receivables).

The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point. While this shows the company is not in good financial health, it does not necessarily mean that it will go bankrupt – but it is definitely not a good sign. Henkel’s current ratios were in most f the years more than 1, which is good in some sense. At the same time, probability of the conversion of assets and liabilities into cash and out is 100%. So, this ratio does not tell us for sure that Henkel would be able to pay its short-term liabilities.

Quick Ratio is a better indicator of company’s ability to meet its short-term obligations with its most liquid (current assets) assets. The bellow table indicates quick ratio to be more than 1 in 2007 and 2010, which is good for Henkel. However, in 2008 and 2009 company had lower ratio, which means that in those years Co. ad either more inventory, either more current assets. More inventory is bad, because inventory bears three types of costs: storage costs, expired costs, and financing costs. 2007200820092010 quick ratio1, 040, 630, 841, 01 Working Capital Analysis As we know, working capital is used to quantify the need for financing that arises though the process of completing the asset conversion cycle.

According to Appendix 5 Working Capital that is the difference between Long-term Financing and Long-term Investments were: Year 2007 2008 2009 2010 Working capital 405 6552 7722 9305 In fact, Henkel had more Long-term financing rather than Long-term investments. Let’s have a look at the operating cycle needs. Operating Cycle needs (Investment Working Capital) Investment in Operating cycle2007200820092010 RECEIVABLE1, 6941, 8471, 7211, 893 INVENTORY1, 2831, 4821, 2181, 460 Prepaid Expenses315256224210 Total investing in operating cycle3, 2923, 5853, 1633, 563 Operating Cycle Financing A/P1, 4771, 6781, 8852, 308 ACCRUED EXPENSES200306251205 Total Operating cycle Financing 1, 6771, 9842, 1362, 513 Shortage-1, 615-1, 601-1, 027-1, 050As can be seen from the table above, Henkel was in shortage of financing for every year starting from 2007 till 2010. Picture 4 In order to calculate Operating cycle needs, by predicting we should make the following assumptions: Cash Flows from Operations Analysis2008200920102011 Sales Growth20. 00% Gross Margin50. 00% Receivable Days8 Inventory Days6 Payable Days5 % Operating Expenses 35.

00% Income Statement Prediction 2011 Sales 18110 Cost of Goods Sold 9055 Gross Margin 9055 Operating Expenses6339 Operating Profit 2717 Investment Working capital Prediction 2011Account Receivable Prediction 402 Inventory Prediction 151 Total investing in operating cycle 553 Purchasing 7746 Payable prediction 108 Operating Cycle needs 446 There are two possible solutions: 1. Henkel can increase Operating cycle needs by increasing Sales, which is most acceptable; increase days of inventory, which is bad; increase days of receivables, which is bad as well; decrease days of payables, which is acceptable. 2. Invest to support operating cycle. Financial Risk Ratios 20062007200820092010 ROE = NI/Stockholder’s equity15, 4%16, 1%18, 7%9, 2%14, 1%Return on Sales= Operating Profit / Sales10, 2%10, 3%5, 5%8, 0%11, 4% ROA= Operating income /operating assets11, 2%12, 5%5, 2%7, 6%11, 5% EPS = Net income after tax- Preferential share dividends Over Weighted average number of equity shares (common shares)1, 972, 122, 811, 382, 57 EPS = Net income after tax- Preferential share dividends Over Weighted average number of equity shares (preferred shares)1, 992, 142, 831, 402, 59 P/E ratio = The quoted market price of the share/Earnings per share (for common shares)171672315 P/E ratio = The quoted market price of the share/Earnings per share (for preferred shares)191882618Henkel’s ROE in 2007 was 16. 1%, in 2008 it was 18.

7%, in 2009 it was 9. 2% and in 2010 it was 14. 1% (Appendix 4). According to online resource, ROE (Return on equity) is a measure of how well a company used reinvested earnings to generate additional earnings, equal to a fiscal year’s after-tax income (after preferred stock dividends but before common stock dividends) divided by book value, expressed as a percentage. It is used as a general indication of the company’s efficiency; in other words, how much profit it is able to generate given the resources provided by its stockholders .

ROA is calculated as Operating Profit over Operating Assets to show the management’s ability to use the resources to support the operating cycle. For 1$ of Operating Assets Co. generated 10. 2% of operating profit. Overall picture has been changing from low to as high as 11. 5% in 2010.

Which indicates the managers used its resources more effectively in 2010. EPS changed positively from 2007 till 2008, but due to the financial crisis in 2009 price of the shares dropped. Although, in 2010 Company again retained the EPS of 2. 57. VIII. Conclusion and Recommendations Overall performance of the company, as it can be seen from the analysis above, is good.

The recommendations are the following: •Have more investments into R to gain the competitive advantage; •Decrease the production costs; •Decrease the days of inventory by innovating company’s operations; •Keep on selling products on the steadily percentage (according to historical data); •Make more long-term investments.