Analysis of netflix assignment

It slightly decreased one year and increased in the remaining three. Firms would like to have a high margin and a high turnover, so it is a mostly positive trend that turnover is increasing as well as the net profit margin. Total Leverage: unfavorable. The trend Is positive because total leverage has increased most years. The higher number, the more debt a company has which means that the company has to pay a higher interest expense. Therefore, the net income will be lower which will in turn lower the net profit margin, affecting the ROAR. Stockholders want ROE to increase, but not strictly due to the leverage increase.

The first two years the LEVEL was O, in year 3 it was . 05 and in year 4 it was . 507. This has been a positive trend. Leverage is defined different in the advanced model. Leverage only includes financial obligations in the numerator. It is favorable that LEVEL has increased from O because it does increase the ROE; however, it is important that the company does not borrow more than it can handle. B. Are any of these ratios meaningless because of factors such as negative amounts, denominator close to zero, accounting distortions? There are several ratios that are meaningless.

In the Advanced DuPont model the Net Borrowing Cost, the Spread, and the ROE are all not available for 2006 and 2007. This not because the cell is simply empty but because the denominators are close to zero. The cell content looks like this: #DIVE/O!. Also, the Financial Leverage for the same two years is O in the Advanced DuPont Model, which may be why the NBC cannot be calculated. Also, it is important to note that there are no negative numbers in this data. C. Are there any factors that make you think the 2009 ratios are aberrations and that the future may be significantly different?

There are a few insignificant factors that make me think the 2009 ratios are abnormal and that the future may be exceptionally different. I think it is important to note that the NBC stays the same into the future. I would think that the net borrowing cost would change as the company borrows money and takes on more debt. Also, total leverage increased from 2. 295 to 3. 333 from 2009 to 2010. I am not sure if the future wall De very Deterrent u tens mummer seems to De RA mere Ashley Schmidt Accounting 411 Professor Bartlett Due: October 14, 2010 Assignment 5-8: Decomposing the Dupont Model Ratios to better understand underlying causality.

To better understand the economic fundamentals that are driving Nineteen's ROE, we an decompose (analyze) each of the variables in the Dupont Model. Examine the ratios calculated by veal. A. Examine the more detailed margin, turnover, and leverage ratios. What interpretation can you place on each of these detailed ratios? Looking at the financial statements may help you understand what the ratios mean. Margin Ratios Gross Margin: The gross margin measures the difference between sales and cost of goods sold as a proportion of sales. The gross margin of Nineteen's has stayed relatively around the same.

It looks like it may start to increase in the near future, UT from the data there is not a definite positive or negative trend. The Gross margin in 2009 was . 378 which means that 37. 8% of sales were profit. This ratio is important to watch if you are worried about increased competition, which is something that Nettling will be facing very soon. EBITDA Margin: This ratio has been consistently increasing for Nettling over the past 5 years. It is the earnings before interest, taxes, depreciation, and amortization as a proportion of sales.

Depreciation and amortization only represent the allocation of past capital expenditures and even though a firm may look good with this ratio they ay have to reinvest in its capital base to continue to stay in business. We would want to make certain that Nettling is spending/using capital expenditures wisely. BIT Margin: This is earnings before interest and taxes and it provides a valuable summary of operating performance. This margin abstracts from leverage or tax rate effects and gives a clean measure of underlying operating performance. From gross margin to this ration the relation between sales and profits gets weaker.

This margin has also been consistently increasing for Nettling over the past five years and is a good indicator of operating performance. Net Operating Margin before non-race. : This margin is net operating income with any nonrecurring expenses AAA Dacca In wanly are statutes Tort tenet tax consequences. This number has not been consistent for Nettling and is probably due to taxes or costs of non-equity capital (like tax adjusted interest expenses and preferred dividends). Net Operating Margin: This is the net operating income with nonrecurring items. The difference between these numbers from year to year is due to nonrecurring items.

In some years there was a bigger difference than others due to these items. The nature of these items can be unidentified from the 10-K and should be looked at to ensure that they are unusual and not likely to reoccur. Turnover Ratios Net Operating Asset Turnover: The net operating asset turnover has increased for three consecutive years and it is currently at 4. 068. Net Working Capital Turnover: This ratio measures how efficiently a firm is managing its working capital accounts. It is ideal to create sales with the smallest investment in working capital. This number has increased and should be looked at further, it is currently at 4. 68. Average Days to Collect Receivables: This ratio is simply the average amount of time that it takes Nettling to collect the money that its customers owe. This number has been O for the four years that veal has data. This may be because Nettling is a subscriber based company, so you have to pay when you sign up for its services. However, there should still be a time greater than zero that it takes Nettling to collect because transactions do not happen instantaneously. Average Inventory Holding Period: This ratio is the average number of days that Nettling holds its inventory. The quicker it is turned over the better.

The past three years this number has decreased which is positive for the company. Average Days to Pay Payable: This ratio simply takes the average payable to determine how long it takes the company to pay its bills. This ratio has decreased the past three years which is positive for the company because it means that they are paying off their debt faster. UP&E Turnover Leverage Ratios- Long Term Capital Structure Debt to Equity Ratio: This ratio is similar to the financial leverage definition that is used in the Advanced DuPont model; however, preferred stock is excluded from the numerator.

It provides an indication of the extent of a firm's long-term credit commitments. A higher ratio means a higher probability of financial distress. Nineteen's debt to equity ratio is relatively low but did sharply increase from 2008 to U. It would a De Denial to Turner Investigate ten reason Enola D ten

Susanne increase. OFF to Total Debt: Funds from operations to total debt shows the working capital created or destroyed by the operations of the firm. This ratio directly compares the debt with the flow of funds that will be used to service the debt so it overcomes the horologists that the debt to equity ratio presents.