Financial statement summary of your analysis

Finance

FINANCIAL MENT ANALYSIS OF NIKE INSTYRUCTOR The paper analyses financial ment of Nike for three years It presents liquidity ratios, profitability ratios, efficiency ratios and debt ratios.

Liquidity ratios

2014

2013

2012

Industry

Liquid ratio

13696/5027

= 2. 72

13630/3962

= 3. 44

11845/3882

= 3. 05

2. 65

Quick ratio

13696-3947)/5027

= 1. 94

13630-3484)/3962

= 2. 56

11845-3222)/3882

= 2. 22

1. 93

Liquidity ratios show the capability of a firm to meet its short-term obligations. It is usually the primary measure of the financial health of the

firm (Kieso et al. 2011).

The liquidity ratios of Nike have been fluctuating for the past three years. The current ratio increased to 3. 44 in 2013 from 3. 05 in 2012 while in 2014 in decreased to 2. 72 from 3. 44 it 2013. This indicates a fluctuation in the ability of Nike to meet its short-term obligations. Just like current ratio, Quick ratio also increased to 2. 56 in 2013 from 2. 22 in 2012 while in 2014, it decreased to 1. 94 from 2. 56 in 2013. This implies a reduction in the capability of the firm to meet its near-term obligations using its most liquid asset. Compared to the historical data and the industry benchmarks, Nike is more liquid than its competitors, it is able to meet its obligations with lots of ease.

Profitability ratios

2014

2013

2012

Industry

Net profit ratio

2693/27799

= 9. 69%

2472/25313

= 9. 76%

2211/23331

= 9. 48%

10. 33%

ROA

2693/18594

= 14. 48

2472/17545

= 14. 09

2211/15465

= 14. 30

14. 79%

These ratios reveal the bottom line of the company and the returns it offers to its investors (Kieso et al. 2011). Profitability ratios show the general efficiency and performance of the company. Net profit ratios increased from 9. 48% in 2012 to 9. 76% in 2013 indicating an increase in profitability. It decreased from 9. 76% in 2013 to 9369% in 2014 indicating a reduction in performance of the company. Generally, the company’s performance and efficiency, its operations have fluctuated throughout the period. Compared to the industry, Nike is less profitable because its ratios are lower than those of the competitors.

Efficiency ratios

2014

2013

2012

Industry

Days sales outstanding

(3434/27799)*365

= 45. 1days

(3117/25313)*365

= 44. 9

(3132/23331)*365

= 49. 00

53. 56days

Inventory turnover

27779/3947

= 7. 04

25313/3484

= 7. 27

23331/3222

= 7. 24

3. 52

Total asset turnover

27779/18594

= 1. 49

25313/17545

= 1. 44

23331/15465

= 1. 50

1. 41

This category of ratios shows how well a company is managing its liabilities. They also show how effectively a company is using its assets to generate revenues (Wahlen et al. 2010). The days sales outstanding decreased from 49days in 2012 to 44. 9 days in 2012. This implies that Nike is profitable to convert its sales into cash quickly. In 2014, it increased to 45. 1days from 44. 9 days in 2013, implying a reduction in profitability due to slow conversion of sales into cash.

Inventory turnover increased to 7. 72 in 2013 from 7. 24 in 2012 meaning it

used fewer inventories to generate more revenue. In 2014, it used more inventories to generate less revenue since inventory turnover reduced from 7. 27 in 2013 to 7. 04. Total asset turnover decreased in 2013 to 1. 44 from 1. 50 in 2012 and increased to 1. 49 in 2014 from 1. 44 in 2013. Nike is more efficient in its operations than the industry average; it uses fewer assets and inventories to generate more revenues unlike other firms in the industry. It also collects its receivable more quickly than the competitors (Kapil, 2011).

Debt ratios

2014

2013

2012

Industry

Debt to equity ratio

7770/10824

= 0. 72

6464/11081

= 0. 58

5084/10381

= 0. 48

0. 21

Debt ratio

7770/18594

= 0. 42

6464/17545

= 0. 37

5084/15465

= 0. 33

0. 19

Debt ratios determine the long-term solvency of the company (Warren & Reeve, 2009). The debt to equity ratio increased from 0. 48 in 2012 to 0. 58 in 2013 and to 0. 72 in 2014. Also, the debt ratio increased from 0. 33 in 2012 to 0. 37 in 2013 and to 0. 42 in 2014. Nike's debt to equity ratio and debt ratio has been on a constant rise throughout the period. The company's use of debt has been on the rise. The two ratios are relatively higher than the industry average implying that Nike is highly leveraged than its competitors in the industry; hence it has more business risk than its competitors.

References

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Income statement, retrieved from: http://finance. yahoo. com/q/is? s= NKE&annual

Statement of financial position, retrieved from: http://finance. yahoo. com/q/bs? s= NKE+Balance+Sheet&annual