Evaluating performance

Finance

Micro Chip Computer Corporation Analysis of selected financial data The year-to-year percentage annual growth in total net sales between the fiscal years 2004 and 2008 is shown in the table below. The 2004 fiscal year is the base year for the calculation and the formula used for the excel sheet calculation is also shown.

Selected Financial Data

(In $ millions)

2008

2007

2006

2005

2004

Net Sales

8, 334

6, 141

9, 181

11, 933

11, 062

Year-to-year % growth in sales = (Year 2 sales - Year 1 sales)÷Year 1 Sales x 100

Year-to-year % growth in sales

36%

-33%

-23%

8%

Base

Compound Annual Growth Rate CAGR = (FY 2008 Sales / FY 2004 Sales) ^(1/4) -1

CAGR

-7%

2. The year-to-year growth in net sales for the company shows wide fluctuation as seen from the data above. From a growth on net sales of 8% in the year 2005, the net sales shows major declines in the next two years 2006 and 2007 and then rose sharply by 36% in 2008. From this trend, it is difficult to predict the revenue the company would achieve in 2009.

One method of predicting future net sales is by calculating the Compound Annual Growth Rate (CAGR) in net sales over the previous years and to apply that as the growth rate for the future year. The CAGR over the past 4 years is -7% but the wide fluctuation in year-to-year growth makes the CAGR rate unsuitable to determine future growth. From the data available, it is impossible to determine the 2009 revenue target and to determine if the company would hit the target.

Analysis of Consolidated Statement of Operations

1. The Consolidated statement of operations for the period September 26, 2008 through September 25, 2009 is shown below in an excel sheet calculation.

Consolidated Statement of Operations

(In $ millions)

2007-08

2008-09

Formula Used

Sales

8, 334. 00

100. 00%

10, 417. 50

100. 00%

2007-08 Sales x 1. 25

Cost of Sales

5, 458. 00

65. 49%

6, 822. 50

65. 49%

Same % as in 2007-08

Gross Margin

2, 876. 00

34. 51%

3, 595. 00

34. 51%

Sales - Cost of sales

Operating Expenses

R & D

525. 00

6. 30%

656. 25

6. 30%

Same % as in 2007-08

Selling, General & Administrative

691. 00

8. 29%

863. 75

8. 29%

Same % as in 2007-08

In-process R & D

-

-

Restructuring costs

-

-

520. 88

5. 00%

5% of 2008-09 Sales

Operating income

1, 660. 00

19. 92%

1, 554. 13

14. 92%

Gross Margin - Op. Expenses

Interest & Other income

194. 00

194. 00

Same as in 2007-08

Income before provision for income tax

1, 854. 00

1, 748. 13

Operating income + Interest and other income

Provision for income tax (15%)

278. 10

262. 22

15% of income before tax

Net income

1, 575. 90

1, 485. 91

Income before tax - Tax provision

2. The assumptions made in the above calculations are :

a. The cost of sales is retained at the same percentage level in 2008-09 as in the previous year. This is reasonable in the absence of any data to the contrary.

b. The operating expenses, R & D and S G &A are retained at the same percentage level as in the previous year. These are also reasonable assumptions.

3. Interest and other income is retained at the same dollar value as in the previous year. Since the scale of operations has gone up by 25%, there would be increased need of working capital which could deplete cash / investments and cause interest income to go down. An assumption of lower interest income may be more prudent.