Comparing financial ratios essay

Business

Topic: Comparing financial ratiosIntroduction This paper seeks to compare the financial ratios of two separate firms belonging to two separate industries to their industry averages. The comparison aims to evaluate the company's performance with its competitors in the in the industry in terms of profitability, liquidity and financial leverage (Brigham and Houston, 2002). The two companies are Kudler Fine Foodsand Riordan Manufacturing. Their financial statements are analyzed and ratios are extracted for purposes of comparisonAnalysis of Kudler Fine Foods Kudler Fine Foods is known as a company that has a local upscale specialty food store situated in the San Diego metropolitan area with three locations as may be found in La Jolla, Del Mar and Encinitas. With each store occupying an approximate area not less that 15, 000 square feet of retail space and having placed its business in a fashionable shopping center, the company also claims to have stocked with the very best domestic and imported foodstuffs (Apollo Group, Inc.

, 2006). A summary of important financial ratios (See Appendix A) for the company are as follows: 2003industry-current ratio16. 95n. a.-debt ratio0.

390. 70-profit margin0. 09.

0529-ROA0. 35n. a-the average p/e for manufacturing industry34. 26 As to profitability, the company appear performing well at net profit margin of 9% and return on assets of 35%. Net profit margin is even higher than the industry average of 5.

29%. Due to absence of data for industry ROA, comparison was not made as of this writing. It is also liquid at a very high current ratio of 16. 95. This means that the company can earn to finance currently maturing obligation.

The company's financial strength is further supported by its good debt to equity ratio of below 1. 0 or 0.

39, which is much lower than the industry average from Yahoo Finance (2007) of 0. 70. It has therefore a good financial leverage that could afford the company a stability and strength for expansion in the future to take advantage of increasing market for demand for its products and services. Analysis of Riordan Manufacturing Riordan Manufacturing is a global manufacturer of plastics which employs about less than six hundred (600) people and which claims to be capable of annual earnings of $46 million. Being a wholly owned by Riordan Industries, the company also claimed to be a Fortune 1000 enterprise due to the company's revenues in excess of $1 billion.

(Apollo Group, Inc., 2006). The company produces various plastic products including plastic beverage containers, custom plastic parts and plastic fan parts which are manufactured in various location in the US and in its facilities located in Hangzhou, China. It also has its research and development activities done at the corporate headquarters in San Jose as it serves it major customers which include the automotive parts, aircraft , and appliance aircraft manufacturers, the government particularly the Department of Defense and the beverage makers and bottlers (Apollo Group, Inc.

, 2006). A summary of important financial ratios (See Appendix A) for the company are presented below: 20052004Industry-current ratio2. 092. 43n. a.-debt ratio0. 560. 560.

88-profit margin0. 040. 04-5. 85-ROA0. 060. 06n. a-the average p/e for manufacturing industryn.

a.(0. 16) As noted above, Riordan is profitable at positive net profit margins of . 04 for both 2004 and 2005.

The company is better than the average of the industry which reflected from a negative 5. 85 based from average computed from plastic manufacturers as listed by Yahoo Finance (2007). The same profitability is supported by return of assets of . 06 for both years also. However, the absence of data from Yahoo Finance industry browser, no comparison could be made on ROA.

But Yahoo Finance (2007) yielded negative rates for Return on Equity ratios (closely related to ROA) for the industry, thus confirming Riordan's better performance. As to current ratio the company could be said to liquid considering the above 2. 0 ratio for the past two years, although it could be compared with the industry due to absence of data as of this writing. As to financial leverage, the company is also doing well at .

56 as compared to industry average of . 88. This means that the company is doing well in terms of profitability , liquidity and financial leverage. Conclusion: It was found in the analysis that the financial ratios of both companies exhibited marked profitability, liquidity and financial leverage compared to the industry averages. This means that the management of the two companies are doing well and the two companies have still chances for growth which could be sustained by their better performances in their financial leverages which are being made better by sustained profitability of the companies. Appendix A – Computation of Financial Ratios and Industry

Averages, See ExcelReferences: Apollo Group, Inc.(2006) Financial statements of Kudler Fine Foods {www document} URL https://ecampus. phoenix. edu/secure/aapd/CIST/VOP/Business/Riordan/RioMfgHome002. htm, Accessed July 31, 2007Apollo Group, Inc.(2006) Financial statements of Riordan Manufacturing, {www document} URLBrigham and Houston (2002) Fundamentals of Financial Management, Thomson South Western, USA. https://ecampus. phoenix. edu/secure/aapd/CIST/VOP/Business/Riordan/RioMfgHome002. htm, Accessed July 31, 2007Yahoo Finance (2007) Industry Browsers, http://biz. yahoo. com/p/322conameu. html and http://biz. yahoo. com/p/340conameu. html, Accessed July 31, 2007-08-01