

# Lucent technologies case

Finance



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Lucent Technologies Case Overview Lucent Technologies emerged as a leading player in the global telecommunication sector. Starting from the period of 1996, this telecommunication giant has made multiple profitability records within the US markets. The brand started its global journey during the period of 1999 when the company attained a profit turnover of over \$38. In this respect, the paper focuses on understanding the aspects that has supported this telecom company towards attaining success and/or failure (Palepu & Healy, 2007).

### Question 1

The DuPont decomposition for Lucent's ROE during the period of 1998, 1999 and 2000 has been provided hereunder.

Dupont Analysis 1998

Dupont Analysis 1999

Dupont Analysis 2000

Observably, Return on Equity (ROE) of Lucent Technologies had attained drastic setback over the past three years that include 1998, 1999, and 2000. In this context, multiple factors can be held liable that had been accountable for getting subjected to this setback. Within these identified factors, the profitability of the company along with the equity multiples are the major deterrents. Apart from these two, the asset turnover had also contributed within this ROE fall (Tagliani, 2009). From the above tables, it can be clearly observed that the asset turnover rate dropped down subsequently from 35.25% in 1998 to 25.64% in 2000. As a result, a drop in the level of ROE and Return on Assets (ROA) can also be estimated. Apart from all these, the company business functionality also appeared to have boosted the long-term debt aspect that in turn had negatively impacted the overall financial

stability of Lucent Technologies. In a cause and effect manner, the company's liquidity went down by drastic levels and thus, resulted in deteriorating the performance of the company in the years 1998, 1999 and 2000 (Palepu & Healy, 2007).

#### Question 2

Lucent Technologies appeared to have made drastic changes within a very short tenure. With the prime intention of attracting more and more investors, the company made significant amount of efforts towards making its annual statements more transparent and understandable. The table below projects a clear understanding of the types of changes identified in Sales, Accounts Receivable, Inventory and Gross Margin for the five quarterly periods i. e. from December 1998 to December 1999.

#### Seasonal Adjusted Changes in Lucent Technologies

From the above table, improvement in the sales figures of the company can be indentified during the quarter of March-June 1999 by 12 %. Although, the company attained a growth rate for the consecutive two quarters after the quarter of Dec'1998 to March'1999, but could not retain the growth pace in a sustainable manner. The percentage rate of receivables for the company also dropped subsequently. In term of inventory, it can be asserted that the company did maintain positivity for three years consecutively but failed to maintain the same during the quarterly period from June 1999 to September 1999. Taking into consideration of these aspects, it can be stated that the company has underwent major changes within its financial structure between the quarterly period of Dec' 1998 to Mar' 1999 (Lazonick & March, 2010).

#### Question 3

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a.

The company held a high ROE in the financial year of 1998 and 1999. The misalignments within the sales figures and the gross margin ratios within the five quarters also justifies the fact the company was unable to maintain its streak of record keeping (Wheatley, 2000).

b.

Class-action lawsuits can be considered as effective in terms of protection the interests of the investors for better attainment of their claims. The lawsuits were implemented with the aim of ascertaining that issuance of misleading and misrepresented financial statements is mitigated (Wheatley, 2000).

c.

The deteriorating financial condition of Lucent Technologies signified that it could not recover its earning by the second quarter of 2000 owing to decreasing ROE levels, financial leverage ratio and increasing level of operating expenses (Wheatley, 2000).

## References

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