

D'leon inc. case study

Business



Watkins felt that they had period products to the competition and that he could charge a premium price for their products to result in increased sales, profits, and stock price. The results, however, were unsatisfactory.

Sales were below and costs were above all initial projections. These results have raised questions about the expansion and also caused concern among the Board of Directors and the major shareholders about the future of the company. Part I of this report analyzes Dolmen's financial statements from 2004 and 2005.

It describes some of the effects of the expansion on the financial of the company and some of the problems that have arisen with their current financial position. Net operating profit decreased, but operating working capital and total operating capital have shown increases. Sales had a considerable increase, but net income decreased.

Dolmen's financial also indicated a decrease in cash flow due to the company spending more cash than they were taking in.

These changes are subsequently resulting in decreased stock prices and a deteriorating financial position which is concerning both management and shareholders. Part II of this report discusses the ratio analysis of Dolmen's financial statements. It begins by explaining the five major categories of financial ratios: Liquidity, Asset Management, Debt Management, Profitability, and Market Value. While most of the 2005 ratios have shown significant declines and are below industry averages, the 2006 projections look promising for the company and are showing significant increases.

Part II continues with a discussion of some of the limitations of financial ratios as comparison tools and concludes with a brief discussion of Dolmen's credit issues and a summary of the company's 2006 projections.

It is recommended that Dillon Inc. conduct in-depth financial research and perform an extensive ratio analysis of their financial position before deciding to undergo any further expansions. Doing this could greatly help the managers in their decision-making and aid in determining the effects of any future expansions on the financial stability of the company.