

Intel analysis

Business



The purpose of this paper is to conduct financial statement analysis of a publicly traded company, Intel Corporation. A discussion about the financial health of Intel has the ultimate goal of making recommendations to other investors. Horizontal analysis facilitates the required data for calculating certain ratios. In addition, this paper reports the negative and positive trends seen in Intel's financial history as well as calculates the current ratio, quick ratio and cash to current liabilities ratio.

Company Overview Intel Corporation, located in Santa Clara, California, is known as a major leader in genealogy innovation. In the article "The World's 2000 Largest Public Companies, (2012)" Intel Corporation is 105 in the semiconductors industry with \$35.

Billion in sales, \$5. Billion in profit and \$48. 37 in assets, making the market value of the company \$114. Billion. Robert Noyce and Gordon Moore founded Intel in 1968 with a vision for semiconductor memory products, and in 1971 that vision was realized with the introduction of the world's first microprocessor.

In 2000, Intel provided the Intel Pentium 4 processor and placed emphasis on wireless computing with Intel Pro/ Wireless LAN PC cards (Intel: Timeline, 2012).

Intel's mission statement says "this decade, we will create and extend computing technology to connect and enrich the lives of every person on earth" (Intel: Company Information, 2012). Although the company holds approximately 80 percent of the market share for microprocessors, the competitive landscape is not without opponents. Top competitors of Intel

include Advanced Micro Devices, Inc. Texas Instruments Incorporated and Samsung Electronics Co. , Ltd.

In the 2011 annual report Intel says “ for many years. Advanced Micro Devices, Inc. (AMD) has been our primary competitor in the market segments for platforms used in notebooks and desktops...

In smartphones and tablets, we face established competitors such as QUALCOMM Incorporated, INVALID, and Texas Instruments Incorporated” (Annual Report: Competition). Analysis A comparison of historical financial data over an interval of time is called horizontal analysis.

Horizontal analysis of the income statement shows best in a two-year format, and includes a variance of the difference between the years on each line of the statement. This analysis allows the user to compare revenue and expense counts. A two-year horizontal analysis of the balance sheet is used to compare historical financial data of assets, liabilities and owners equity accounts.

To determine the financial direction of Intel Corporation, an essential measuring tool is the horizontal analysis of the Income statement and balance sheet below in Figures 1 and 2. Figure 1: Horizontal Analysis of Income statement years ended December 31st 2011 2010 2009 (in millions, no per share amount) (+) Net revenue cost of sales Gross margin research 8350 \$53, 999 \$10, 376 \$43, 623 \$8, 496 \$35, 127 20242 5110 15132 -434 15566 3757 5266 28491 8930 19561 1774 6576 923 5653 restructuring 0 0 231 amortization of acquisition 260 242 18-17 35 operating expenses 16280 3377 12903 -947 13850 operating income 17477 1889 15588 9877 5711

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gains/losses on equity, net 112 -236 348 178 -170 interest and other, net
 192 83 109 -54 163 income before tax 17781 1736 16045 10341 5704 tax
 provision 4839 258 4581 3246 1335 Net income \$12, 942 \$1, 478 \$11, 464
 \$7, 095 \$4,69 Basic earnings per common \$2. 6 \$0. 40 \$2. 06 \$1.

27 \$0. 79 Diluted earnings per common \$2. 39 \$0. 38 \$2. 01 \$1. 24 \$0.

77 Weighted average common shares outstanding: cost 5256 -299 5555 -2
 5557 diluted 5411 -285 5696 51 5645 (Taken from Intel Financial and Filings,
 2012) Highlighted above is small decrease in cost of sales during the first
 time interval, then sharp increase in cost of sales during the second interval.
 Operating expenses took a dip in 2009 to 2010, but increased yet again from
 2010 to 2011.

Operating income dropped significantly as gains on equity plummeted.

During the first time interval Intel's earnings per share skyrocketed in value,
 and only slightly increased the next year. In the second time interval (2010
 to 2011) both the basic and diluted shares outstanding decreased in strangely
 close amounts, similar to the earnings per share previously mentioned.

Figurer: Horizontal Analysis Balance Sheet DCE. 31st 2011 and DCE. 5th
 2010 (in millions, except par) Assets 2011 2010 Current assets: cash \$5, 065
 \$433 \$5, 498 short-term investments 5181 -611311294 trading assets 4591
 -502 5093 accounts receivable 3650 783 2867 inventories 4096 339 3757
 deferred tax assets 1700 212 1488 other current assets 1589 25 1614 total
 current assets 25872 -573931611 property, plant and equipment 23627
 5728 17899 marketable equity 562 446 1008 there long-term investments
 889 -2137 3026 goodwill 9254 4723 4531 intangible assets 6267 5407 860

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other long-term assets 4648 397 4251 total assets \$71, 119 7933 \$63, 186
 Liabilities and stockholders' equity Short-term debt \$247 209 \$38 Accounts
 payable 2956 666 2290 Accrued compensation 2948 60 2888 Accrued
 advertising 1134 127 1007 Deferred income 1929 1182 747 Deferred income
 2814 457 2357 Total current liabilities 12028 2701 9327 Long-term debt
 7084 5007 2077 Long-term deferred tax 2617 1691 926 other long-term
 liabilities 3479 2053 1426 Commitments and contingencies Stockholders'
 equity: Preferred stock, \$0. 001 par value, 50 shares 0 common stock, \$0.
 01 par value, 10, 000 17036 Accumulated other comprehensive income -781
 Retained earnings 29656 3263 32919 Total stockholders' equity 45911 -
 3519 49430 858 16178 -448 333 Total liabilities and stockholders' equity
 \$71, 119 \$7, 933 \$63, 186 (Taken from Intel Financial and Filings, 2012) The

analysis above indicates negative sums in short-term investments and
 trading areas, resulting in a decrease of total current assets. Accounts
 payable and deferred incomes have increasing roles in current liabilities.

Categorically, stockholders' equity went down but the total liabilities and
 stockholders' equity increased as a whole. Ratios The current ratio indicates
 a company's ability to meet short-term debt obligations. Generally speaking,
 the higher a company's current ratio is the more liquid it becomes.

According to Principles of Accounting Volume 1, current assets divided by
 current liabilities is the formula that can be used to find the current ratio of
 Intel Corporation (2012). Total current assets were \$25872 in 2011 and
 \$31611 in 2010.

Total current liabilities were \$12028 in 2011 and \$9327 in 2010. These values return ratio of 2.15 in 2011 and 3.39 in 2010. Intel's current ratio in 2010 indicates problems in working cash management or inefficiencies in the use of current assets or short-term financing. Another measure of a company's financial strength is the quick ratio which uses current assets minus inventories, divided by current liabilities.

In 2010, Intel's quick ratio 2.98 (31611 minus 3757, divided by 9327.) In 2011, Intel's quick ratio is 1.81 (25872 minus 4096, divided by 12028). Cash-flow to current liabilities ratio measures how well a company covers current liabilities. Calculate this ratio using net cash flow from operations divided by current liabilities.

Intel's cash-flow to current liabilities ratio in 2011 is 1.08 (12942 divided by 12028.) In 2010, the ratio is 1.23 (11464 divided by 9327.) A value of 1 or more is preferred, thus Intel Corporation is an attractive investment. The quick ratio indicates the short-term position of the company.

If the ratio is 1 or higher, it means that the company has enough cash and liquid assets to cover its short-term debt obligations (Current liabilities, working capital and related ratios, 2014). According to an article from Seeking Alpha (2012), "company liquidity is an important consideration because sources of liquidity such as cash and securities not only allow a company to continue operations in the short term, but it also finances investments for longer-term growth". The calculations of Intel's ratios reveal its desired liquidity and very good financial health. Researches on the current ratios of companies in the same industry have trends as similar to <https://assignbuster.com/intel-analysis/>

Intel, such as Marvel (MRS.) Technology Group Ltd. , Oatmeal Corporation (ATM) and Cypress Semiconductor Corporation (ICY).

For example, current ratio of MRS. increased from 2. 8 to 3. 81 during the first 12-month interval and 3. 81 to 4.

7 during the second time interval (Seeking Alpha, 2012, par. 6). Atman's current ratio went from 1. 75 to 2. 07 in the first interval and 2. 07 to 2.

49 in the second interval (Seeking Alpha, 2012, par. 7). In contrast to Intel's healthy financial position these companies may suffer from poor cash flow management or inefficiencies in asset use. Recommendations Intel is trading at one of the lowest price earnings ratios recorded in history. Stock research and investment sites suggest that the growth of tablets has triggered a decline in demand for PC's, a detriment to Intel. However, a great opportunity awaits Intel Corporation- selling components to Apple.

Samsung had previously partnered with Apple in providing items such as flash, touch screens and battery. Apple's CEO Tim Cook dropped Samsung as a component supplier in the recent release of phone 5 and sued Samsung for allegedly copying its phone (Intel inside Apple's phone, 2012). This happened while the company was purchasing parts from Samsung, Cook articulates. In 2013, analysts forecast Apple selling more than 200 million phones (in addition to pads and pod Touches) all of which need a chip.

That's over 300 million chips at an estimated \$17. 50 each (Intel Inside Apple's phone, 2012). In addition, current trading price for shares in Intel Corporation is \$21. 2, and 27 out of 49 analysts agree investors should hold

their position (Ft. Com/markets data 2012). Analysts' earnings forecasts are at least as accurate as statistical models in predicting future earnings because according to Cornell, B.

(2001), stock market analysts play a critical role in collecting, analyzing, and transmitting corporate information for investors. Conclusion Intel Corporation is a major player in the semiconductors industry. The company introduced the first 1.56 processor which revolutionized wireless computing. A multi-billion dollar corporation, Intel has produced healthy but sometimes fluctuating financial data in the last decade.

A horizontal analysis of Intel's most current income statement and balance sheet reveal trends also seen in companies competing in the same industry.

Analyses of the financial statements both reveal desired ratios in current, quick and net cash-flow to current liabilities. In conclusion, Intel is trading at the lowest prices in history but is a very liquid company and an attractive investment. Intel's CEO and executives need to harness opportunities in the mobile computing field to increase investor attractiveness.