

# [Lumpkin](https://assignbuster.com/lumpkin/)

Plumbing was formed and slowly grew for the first half of the sass's. Due to rapid business growth in the latter part of the decade, Mr.. Limpkin decided to expand on the company's existing building. This expansion was made possible by a $1 50, 000 loan approved by Ms. Mae Elli from Central National Bank. For the past 5 years Limpkin Plumbing has been banking with this bank, yet this was its first loan. The company regularly provides reports regarding its progress and Mr.. Limpkin keeps In contact with Ms. Elli.

This makes them highly applicable for additional loans with this bank. While the projections were underestimated, this Is a positive sign that making the loan payments should not be a concern. Limpkin Plumbing is a well-managed business with high potential for future growth and success as long as it keeps operations under control and improves projection accuracy. Marketing Analysis Limpkin Plumbing's demand is slightly seasonal, with an increase in sales during the spring and early summer. Based on the company's projections, even they were not expecting the high increase of sales.

While the projected a sales growth was 20%, the actual growth rate was 63. 1%. This increase proves that there was higher demand for Limpkin Plumbing's business. Perhaps with the newly added display areas, retail sales will Increase the net sales even more. This could give the business a competitive advantage in the future. One of the biggest issues I have with this company is the inaccuracy of its projections; especially for the inventory and accounts payable. Inventory from 1 998 to 1999 increased by 18. %; however, the projection for 2000 is only for a 10. 5% increase. If they are expanding to accommodate growth then I think the growth rate for inventory should have been higher. Operations Analysis As a wholesale distributed, Limpkin Plumbing operates with a high level of inventory that should be turned over swiftly. The inventory turnover rate for 1999 was 3. 80% and 3. 35% for 2000. This decrease Is most likely due to the underestimated amount of purchases and depreciation for 2000. This however Is not necessarily a negative sign.

If the demand was there from customers then purchases must be made. With the building expansion, hopefully Limpkin Plumbing can improve the efficiency of orders which will lead to a high turnover rate. This high amount of inventory is also affecting its liquidity based on the quick ratio. Unfortunately, the quick ratio for Limpkin Plumbing has decreased from 1. 73 to 0. 56. Company should take a look at their credit terms to see if they could collect more from customers. In regards to the company's cash conversion cycle it has decreased from 106. In 1999 to 83. In 2000. While the average collection period decreased minimally; the main driver for this is the decrease of the payable period from 45. 1 to 12. 7. Therefore, while customers are paying the company sooner, it is taking longer to pay vendors. This could possibly cause problems in the future. When comparing the fixed asset turnover of 1999 to 2000, there is a decrease of 18. 2%. This main reason for this is due to net sales not increasing enough in relation to the increase of net property and equipment. Mr..

Limpkin should focus some of his attention on making s fixed assets for efficient to generate higher revenues. Financial Analysis To avoid unnecessary costs by renting additional space Limpkin Plumbing decided to use debt for the first time which changed their business structure greatly in regards to leverage. One of the most noticeable changes in its financial is the ROE increase of 8. 41 ; which is great for investors. Another change that deserves attention is the debt to equity ratio changing from 0. 22 in 1999 to 0. 96 in 2000; however, the projected ratio for 2000 was only 0. 5. Not only is the new loan driving this ratio to increase but also the accounts payable balance increasing by 494%. For future financing purposes, it may want to pay off some of the vendor accounts in order to help lower the DIE ratio to seem more attractive. Summary Overall, Mr.. Limpkin made the right decision to expand Limpkin Plumbing's warehouse by borrowing debt from Central National Bank. Based on the increase in both net sales and net income the company should have no problem repaying the loan and are a good candidate for future loans.

However, I think they might run into some problems with vendors in the future if they do not start paying their account payable balances a little more attention. It should also find someone to provide them with more accurate projections. By having more accurate projections, they will be in a better position for not only future loans, but also prospective investors. So far, Mr.. Limpkin has done a great Job keeping in contact with Ms. Elli and should continue to do so in order to keep a trustworthy relationship for future banking and financing needs.