# The financial detective 2005

Finance

[The Financial Detective 2005 Introduction Each industry is distinctive. One might be unique in its high fixed assets; other would be differentiated of its increasing intangible assets and many other financial footprints that each industry leaves on its balance sheet. Nonetheless, industries are distinguished furthermore; fingers of one hand are not the same as said. Businesses in the same industry can be characterized differently according to their strategic plan and capital structure. The following case highlighted some characteristics of different industries and different businesses within those industries.

From pharmaceuticals tomusicand books, those differences, supported by numerical financial data, are explained in the following section. Books & Music General information provided: Company 1 1. Selling through a vast retail-store presence 2. Traditional book retailing 3. Online presence and owns publishing imprint Company 2 1. Sells books, music, videos solely through the internet website 2. Three quarters of the sales are media 3. Sells electronics and other merchandise 4. Recently became profitable 5.

Followed a strategy of acquiring retailed online business recently Assessing the provided information about the two companies and looking deeply at some of the financial data, it was concluded that company 1 is designated by the letter H and company 2 is designated by the letter G in Exhibit 1 (see appendix 1). Investigating the financial data, it was found that Company 1 (H) had a higher inventories account of 38. 6 this supports the fact that it is a traditional book store that needed to keep book inventories at all times to maintain its retail presence. This is further seen in its inventory turnover, is has a lower turnover of 2. 2x this reflects the nature of the company which

traditional book retailer that experience slow turnover. Moreover, company 1 (H) has an 11. 1 in intangible assets, again this reflects the companies intangible assets such as publishing imprints. Also, company 1 (H) owns about 24. 4 in fixed assets as a results of its vast retail network. For company 2 (G), inventory account is much lower than company one (14. 8) this reflects the fact that company 2 is online based business that sells mostly digital products such as media along with few other general electronics and merchandise.

Thus, its inventory turnover is much higher (13. 56x) correspondent to the nature of most of the sold product (digital media) that are highly demanded and easily accessible. Regarding its fixed assets account, company 2 (b) has lower fixed assets of 7. 6 this mainly reflects the activities related to electronics and other merchandise that probably requires some fixed assets, but for its E-commerce, it needs minimal- none fixed assets. Considering the type of this business (online based) it was noticed that its receivables account is very minimal compared to company 1.

This is probably due to the fact that online products are delivered upon payment, thus it is rare to purchase music on credit. Assessing some of the income statements components, depreciation is recognized to be low (1. 1) this is highly related to its low fixed assets. Last but not least, SG& A expenses of 16. 9 is lower than company 1 , this is logical because company 1 depends on a network of retailers that impose higher general and administrative expenses while company 2 depends solely on its o0nline channel. Finally, net profit of 8. 5 (which is higher than company 1) indicates the mentioned recent profitability.

Newspapers Information provided: Company 1 1. Centered largely on one product 2. Fierce competition 3. Recently built a large office building for its headquarters. 4. international Company 2 1. Owns a number of local newspapers 2. Has a significant amount of goodwill 3. Recent acquisitions 4. Decentralized decision making and administration Taking a closer look to the provided data, it was concluded that company 1 is designated by letter P and company 2 is designated by letter O (see Exhibit 1) this selection was based on a number of factors: company 1 (P) have more receivables ( 9. ) than company 2 O, this is due to the fact that company 1 (P) operates on a larger, international scale than company 2, this larger customer base requires better and more receivable terms. Whereas company 2 , which operates on a smaller local level has lower receivables of 4. 6. Company 1 (P) has almost the double in fixed assets account t in company 2 (o) (34. 6, 14. 1) explaining the new purchase of the headquarter building by company (p). Assessing the intangibles account of both companies, it was noticed that company 2 (O) enjoys a high level of goodwill (76. ) while company 1 (P) has far less intangibles of 37. 1. Evaluating company's 1 (p) focused and centralized strategy of producing and distributing one newspaper internationally, it was noted that this focus led to a decreased cost of goods sold (cost/ unit is inexpensive) this is evidenced in the lower COGS of 40. 5 compared to 49. 7 in company 2 (o). moreover, company's 1 (P) Debt/ asset ratio is higher than company 2 (O) ( 26. 81 compared to 15. 2) this indicated that it is more cost efficient for company 1 that operates internationally tofinanceits strategy implementation by using more debt than equity. This boosted the ROE of company 1 to reach 20. 89 relative to a lower ROE of company 2 (9. 86) which follow a more conservative financing mix. As a final

point, looking at the SG&A expenses, it was observed that company 1 (P) has higher admin expenses due to its strategy of operating internationally while company 2 enjoyed less Admin expenses due to its local strategy ( 39. 7 compared to 23 ).