Introduction:

Deep Roots Distillery (DRD) financial data for 2014 and estimated data for 2015 offer insights into its performance and potential. This analysis compares DRD's financial metrics to industry norms for the distillery industry in Canada, providing insights into its liquidity, profitability, and stability.

Liquidity Ratios:

Current Ratio = Current Assets / Current Liabilities

DRD (2014): 27,188 / 70,854 = 0.38
DRD (2015): 60,000 / 41,262 = 1.45
Industry Average: 0.92
Implications:
DRD's current ratio of 0.38 in 2014 is significantly lower than the industry average of 0.92, indicating potential liquidity issues. However, the estimated current ratio of 1.45 in 2015 shows improvement and suggests that DRD is becoming more capable of meeting its short-term liabilities with its short-term assets (1). The improvement from 2014 to 2015 implies better management of current assets and liabilities, which can lead to more financial stability in the short term (2).

Acid-Test Ratio = (Current Assets – Inventory) / Current Liabilities

DRD (2014): (27,188 - 16,341) / 70,854 = 0.15
DRD (2015): (60,000 - 40,000) / 41,262 = 0.48
Industry Average: 0.39
Implications:
DRD's acid-test ratio of 0.15 in 2014 is significantly lower than the industry average of 0.39, indicating that the company would struggle to meet its immediate liabilities without relying on inventory. The improvement to 0.48 in 2015 suggests better liquidity management, though it is still not robust (1). A higher acid-test ratio in 2015 indicates that DRD is gradually building a healthier balance of cash and receivables compared to its current liabilities, reducing the risk of liquidity issues (2).

Profitability Ratios:

Profit Margin = Net Income / Revenue

DRD (2014): (-16,822 / 14,480) * 100 = -116.2%
DRD (2015): (62,600 / 53,000) * 100 = 118.1%
Industry Average: 11.2%
Implications:
In 2014, the negative profit margin reflects typical start-up losses. The 2015 estimated profit margin of 118.1% indicates a significant turnaround (1). This margin, well above the industry average of 11.2%, implies exceptional cost management and product reception (2).

Return of Assets (ROA)= Net Income/ Total Assets

DRD (2014): (-16,822 / 50,492) * 100 = -33.3%
DRD (2015): (62,600 / 83,500) * 100 = 75.0%
Industry Average: -6%
Implications:
The negative ROA in 2014 indicates initial losses, but the estimated ROA of 75.0% for 2015 shows exceptional asset utilization to generate profits. This indicates that DRD has effectively used its assets to produce high returns (1). A much higher ROA compared to the industry

average of -6% suggests that DRD's management is highly efficient in using its assets to generate earnings, positioning the company well for future growth and expansion (2).

Return on Equity (ROE)= Net Income / Equity

DRD (2014): Not applicable.
DRD (2015): (62,600 / 42,238) = 1.48
Industry Average: 0.20
Implications:
An ROE of 1.48 compared to the industry average of 0.20 indicates that DRD has been extremely effective in generating profits from shareholders' equity. This high return reflects the company's ability to deliver substantial returns to its investors (1). The significant ROE suggests strong financial performance and can attract potential investors looking for high returns, supporting further business growth and development (2).

Stability Ratios:

Debt Ratio= Total Debt / Total Assets

DRD (2014): (70,854 / 50,492) = 1.40
DRD (2015): (41,262 / 83,500) = 0.49
Industry Average: 0.90
Implications:
DRD's debt ratio of 1.40 in 2014 indicates high leverage, which decreased to 0.49 in 2015, showing improved financial stability and lower reliance on debt compared to the industry average of 0.90 (1). The lower debt ratio in 2015 suggests a reduced risk of financial distress, as the company relies less on borrowed funds and more on its equity to finance its operations (2).

Deby to Equity Ratio= Total Debt / Equity

DRD (2014): 70,854 / -20,362 = -3.48
DRD (2015): 41,262 / 42,238= 0.98
Industry Average: 7.10
Implications:
DRD's debt to equity ratio of -3.48 in 2014 is significantly lower than the industry average of 7.10, indicating that the company has more liabilities than equity, which means it could be experiencing financial difficulties (1). In 2015, the Debt-to-Equity Ratio improved to 0.98, indicating that the company had positive equity. This ratio, while still below the industry average of 7.10, shows a significant improvement in the company’s financial health (2).

Conclusion:

DRD has achieved a remarkable financial turnaround from 2014 to 2015. The improvement in the current ratio from 0.38 to 1.45 indicates better liquidity management, enabling the company to meet its short-term liabilities more effectively. This financial stability is further reinforced by the significant increase in profit margin from -116.2% to 118.1%, showcasing successful cost management and the strong market acceptance of its unique products like the Maple Liqueur, which outsold other products by a factor of five to one.

DRD's return on assets (ROA) increased to 75.0%, demonstrating exceptional asset utilization, and the debt ratio decreased from 1.40 to 0.49, indicating improved financial stability and reduced reliance on debt. This operational efficiency aligns with the strategic focus on using locally sourced organic ingredients and targeting niche markets, which has resonated well with consumers and contributed to the company's profitability.