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FInancial Statement analysis

Accounting for Managers 6305.003

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# Introduction

**NIKE, Inc**. was incorporated in 1967 under the laws of the State of Oregon. Nike’s principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world.  Nike sells their products to retail accounts, through NIKE-owned retail stores and internet [websites](http://www.secinfo.com/$/SEC/Registrant.asp?CIK=320187&View=Sites) and through a mix of independent distributors and licensees throughout the world.

**Crocs, Inc**. is a world leader in innovative casual footwear for men, women and children. Crocs offers a broad portfolio of all-season products, while remaining true to its core molded footwear heritage. All Crocs™ shoes feature Croslite™ material, a proprietary, revolutionary technology that gives each pair of shoes the soft, comfortable, lightweight, non-marking and odor-resistant qualities that Crocs fans know and love. Crocs celebrates the fun of being a little different and encourages fans to “Find Your Fun” in every colorful pair of shoes. Since its inception in 2002, Crocs has sold more than 300 million pairs of shoes in more than 90 countries around the world.

**Under Armour** (UA) was Founded in 1996 by former University of Maryland football player Kevin Plank, Under Armour is the originator of performance apparel - gear engineered to keep athletes cool, dry and light throughout the course of a game, practice or workout. The technology behind Under Armour's diverse product assortment for men, women and youth is complex, but the program for reaping the benefits is simple: wear HeatGear® when it's hot, ColdGear® when it's cold, and AllSeasonGear® between the extremes.

**Skechers** is an [American lifestyle](https://en.wikipedia.org/wiki/American_way) and performance footwear company for men, women and children. Headquartered in [Manhattan Beach](https://en.wikipedia.org/wiki/Manhattan_Beach,_California), [California](https://en.wikipedia.org/wiki/California), the brand was founded in 1992. Now the second largest athletic footwear brand in the United States. Skechers' early products were utility-style [boots](https://en.wikipedia.org/wiki/Boot) and [skate shoes](https://en.wikipedia.org/wiki/Skate_shoes); the company has since diversified to include thousands of [athletic](https://en.wikipedia.org/wiki/Athletic_shoe) and [casual](https://en.wikipedia.org/wiki/Sneakers_(footwear)) styles for men, women, and children as well as performance shoes.

# Performing time-series and cross-sectional analysis

## Overall Profitability (Comparing Return of Assets, Return on Equity)

Nike, Inc. ROA has been increasing at a good rate approximately 1% from 2014 till 2016, it shows that company is doing well in using its assets to generate earnings (Refer Appendix 1). This could also be attributed to its increase in profit margin by 1% every year. Nikes Asset turnover is decreasing over time, they could work on it. They can do so by either increasing the sales or by reducing the unused assets. When we look at the ROE it has the highest and constantly increasing ROE (Refer Appendix 2) among the other firms, this means that Nike is good at generating profit with money shareholders have invested. Here, we can observe that there is a sudden rise of ROE by 20% from 2015 to 2016, this is because the company has borrowed money to buy back shares which is evident from the shareholder’s equity going down by 500000$ from 2015 to 2016.

UA’s ROA has been decreasing from 2014 to 2016 at a rate of approximately 2%. Total Asset turnover is also reducing from 2014 to 2016 at a rate of approximately 0.05%. Higher asset turnover is better. This reduced asset turnover could be due to increase in units sold. They need to look in to details and may require increasing the capacity. Observing the ROE, we can see that ROE is also decreasing at a rate of approximately 2% in subsequent years from 2014 to 2016. This drop-in ratio is due to the rise in shareholders' equity which is slightly larger than the increase in net income. resulting in a small drop in ROE.

Skechers ROA has increased by approximately 4% from year 2014 to 2015 but slightly decreased (approximately 1%) from 2015 to 2016. Total asset turnover increased by approximately 1% from 2014 to 2015 and slightly reduced (0.5%) in 2016. Looking at ROE, it is observed that ROE is increasing by 4% approximately from 2014 to 2015 and reduced by 2% approximately in 2016. We can see that 2015 was a good year for skechers, as returns are decreasing in 2016, they could work on it.

Crocs, Inc. ROA is negative for all 3 years. It has become more negative from year 2014 to 2015. Although negative, ROA has increased from year 2015 to 2016. Crocs Asset turnover is increasing by approximately 1.5% from 2014 to 2016 which is good. Crocs has poor ROE for all 3 years with 2015 being the most negative ROE. In 2016, the ROE is better than year 2015 but still negative. This indicates that Crocs is unable to generate sufficient returns which could be due to poor management.

## Components of profitability

**Gross Profit** is a proportion of money left over from revenues after accounting for the cost of goods sold. Refer Appendix 4 for the analysis.

Nikes gross margin increased by 1% every year since 2013, this means that a company is able to pay for its operating expenses

Under Armour’s Gross Margin is decreasing by 1% every year, this could be attributed to the increase in COGS for the company which is evident from Income statement

Skechers Gross Margin is almost stable from 2014 to 2015, then there is a 1% rise in 2016 which can be attributed to more revenue made in 2016.

Crocs Gross Margin is unstable and is fluctuating through 2014 – 2016. The decrease in gross margin from 2014 to 2015 could be because of less revenue made, it can be because of competition or crocs might have lowered their prices. There is a significant improvement from 2015 to 2016 because they managed to get the cost of goods sold lower than 2015.

**Profit Margin**measures how much a company actually keeps out of 1 $. Refer Appendix 3 for the analysis.

Nike’s Profit margin is increasing with a good rate from 2014 to 2016 which shows that Nike is managing its expenses very well.

Under Armour’s Profit Margin is Decreasing since 2014 which is not good for the firm and is not able to manage expenses. It also implies that company is struggling to keep its cost low or lower sales than company in similar field.

Skechers Profit Margin is unstable and fluctuating throughout the time. Crocs has a negative profit margin because the costs exceed the revenue

Asset turnover (Appendix 5) is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Nike’s and UA’s Asset turnover is reducing over the period because the profit margin is increasing every year. Crocs Asset Turnover is increasing over period which means that it is using its assets properly to generate revenue. Skechers Asset Turnover is fluctuating over time.

## Risk Ratios

To measure a firm’s financial health two measures of liquidity are in common current and quick ratio. The main difference between current and quick ratio is the latter doesn’t include inventories while the former does.

The [**quick ratio**](http://www.investopedia.com/video/play/what-is-the-quick-ratio/)(Appendix 10) measures a company’s ability to meet its short-term obligations with its most liquid assets. Nikes quick ratio is 1.20 in the year of 2014 this means that Nike has $1.20 of liquid assets available to cover each $1 of current liabilities. The higher the quick ratio, the better the company's liquidity position. Nikes, Under Armour, Skechers and Crocs quick ratio drops down in 2015 and rise again in 2016, the drop in 2015 could be because the companies are collecting that receivables late or struggling to maintain or grow sales.

**Current Ratio** (Appendix 9) is mainly used to give an idea of the company's ability to pay back its liabilities ([debt](http://www.investopedia.com/terms/d/debt.asp) and [accounts payable](http://www.investopedia.com/terms/a/accountspayable.asp)) with its assets. All the firms used for analysis have current ratios greater than 1 which means that firms liabilities are less than its assets. A high current ratio of 3 or more may suggest that company is not using its current assets efficiently, is not securing financing well or is not managing its working capital well. Under Armour has a Current Ratio greater than 3 in 2014 and 2015 and Crocs has current ratio greater than 3 in the year 2014. Skechers Current Ratio is decreasing because the liabilities are increasing over the period. Nike has a fluctuating Current Ratio over the period.

**Debt to Equity Ratio** (Appendix 8) The D/E ratio indicates how much [debt](http://www.investopedia.com/terms/d/debt.asp) a company is using to finance its [assets](http://www.investopedia.com/terms/a/asset.asp) relative to the amount of value represented in shareholders’ [equity](http://www.investopedia.com/terms/e/equity.asp). As evident from Appendix 8, we can see that UA’s D/E ratio is increasing every year, this means that UA is getting very aggressive in financing its growth with debt, Aggressive leveraging practices are often associated with high levels of [risk](http://www.investopedia.com/terms/r/risk.asp). This may result in volatile earnings because of the additional [interest](http://www.investopedia.com/terms/i/interest.asp) expense which is as evident from the Income sheet of UA. Crocs has high D/E ratio from 2014 to 2015 and it managed to get it down by 2% in the year of 2016, Crocs has the least D/E ratio among all other firms. Nikes D/E ratio is highest among all the firms which means that Nike may default on repayment of its liabilities. Skechers D/E ratio is decreasing every year which is good for the company.

# Risk Factors

Product offerings, technologies, marketing expenditures, pricing, costs of production, customer service and social media presence are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk to all our firms.

Nike faces immense risk if they are unable to anticipate consumer preferences and develop new products. Currency exchange rate fluctuations can harm their businessresulting in lower revenues, higher costs and decreased margins and earnings

Crocs depend heavily on the third-party manufacturers located outside the US which might result in delays and or their inability to fulfil customer needs. Moreover, they depend on a limited number of suppliers for key production materials, and any disruption in the supply of such materials could interrupt product manufacturing and increase product costs.

Skechers depend upon a relatively small group of customers for a large portion of our sales. Their operating results could be negatively impacted if their sales are concentrated in any one style or group of styles.

The prospects of growth of Under Armour can be negatively impacted by decline in sales to, or the loss of, one or more of our key customers could result in a material loss of net revenues. Also, fluctuations in the cost of products could negatively affect their operating results

# Business opportunities & threats

|  |  |  |
| --- | --- | --- |
| Company Name | Opportunities | Threats |
| Nike | \* Emerging Market \* Innovative Products \* Reducing controversy surrounding their trade and production practices \* Step into line of economy boosting projects that encourage recycling \* Develop products such as sunglasses  and sports jewelry | \* High Competition  \* Currency Value fluctuation \* Maintaining reputation of being ecofriendly |
|
|
|
| Under Armour | \* Footwear Product Line Expansion \* Direct to Consumer Distribution \* Over Seas Expansion \* Larger market share in the female/children market \* Sponsorships | \* High Competition  \* Poor Endorsement decisions \* Change in customer behavior \* High risk of product substitution |
| Crocs | \* Acquisition Synergy \* International Expansion \* New Markets | \* Anti Crocs Sentiments \* Change in Taste \* Mature Markets |
| Skechers | \* Potential licensing on multiple product lines \* Foster deeper and more collaborative relationships with our customers \* Factory outlet stores provide opportunities to sell discontinued and excess merchandise \* International Distribution of Products | \* Government Regulations \* Low cash flow \* High Competition |

# Overall Assessment

The firm that could be most successful in the future is Nike. Following are reasons to support the claim

1. Nikes has a constant increase in ROA it shows that company is doing well in using its assets to generate earnings (Refer Appendix 1).
2. Investors are usually interested in a company that has high, increasing return on equity. Nike’s ROE is increasing over time. From 2015 to 2016, Nikes ROE has jumped by 20% which means that Nike is good at generating profit than other firms with money shareholders have invested (Refer Appendix 2).
3. Nikes Profit Margin is also increasing every year. It has an average profit margin of 10% throughout 2014-2016. This means that company has an average net income of $0.10 for each dollar of total revenue earned which is a lot more than the other firms (Refer Appendix 3)
4. Nikes Quick Ratio is also very decent. There was a drop from 2014 to 2015, however Nike managed to increase it again in 2016 (Appendix 10).
5. Nikes Gross Profit is also increasing over time which means that revenues after accounting for cost of goods sold is increasing. So, either Nike has managed to reduce its COGS or increased its revenue over the period (Appendix 4).

# Appendix

## ROA

## ROE

## Profit Margin

## Gross Margin

## Total Asset Turnover

## Account Receivable Turnover

## Inventory Turnover Ratio

## Debt to Equity Ratio

## Current Ratio

## Quick Ratio

## Ratio Comparisons

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Firm | Nike | | | Under Armour | | | Crocs | | | Skechers | | |
| Year | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Return on Equity | 0.48 | 0.28 | 0.25 | 0.14 | 0.15 | 0.17 | -0.04 | -0.16 | -0.01 | 0.17 | 0.19 | 0.14 |
| Profit Margin | 0.12 | 0.11 | 0.10 | 0.05 | 0.06 | 0.07 | -0.02 | -0.08 | 0.00 | 0.07 | 0.07 | 0.06 |
| Gross Margin | 0.46 | 0.46 | 0.45 | 0.46 | 0.48 | 0.49 | 0.48 | 0.47 | 0.49 | 0.46 | 0.45 | 0.45 |
| Asset Turnover | 1.51 | 1.52 | 1.54 | 1.48 | 1.60 | 1.68 | 1.76 | 1.54 | 1.42 | 1.61 | 1.70 | 1.55 |
| A/R Turnover | 9.81 | 8.56 | 7.71 | 9.14 | 10.35 | 10.62 | 10.16 | 9.29 | 9.28 | 10.10 | 9.43 | 8.43 |
| I/T Ratio | 3.79 | 3.99 | 4.13 | 3.04 | 3.12 | 3.13 | 3.40 | 3.42 | 3.65 | 2.92 | 3.21 | 3.22 |
| D/E Ratio | 0.75 | 0.70 | 0.72 | 0.79 | 0.72 | 0.55 | 0.42 | 0.44 | 0.29 | 0.49 | 0.54 | 0.56 |
| Current Ratio | 2.80 | 2.46 | 2.72 | 2.87 | 3.13 | 3.67 | 2.85 | 2.67 | 3.87 | 2.94 | 2.68 | 2.54 |
| Quick Ratio | 1.19 | 1.14 | 1.20 | 1.27 | 1.18 | 2.20 | 1.65 | 1.52 | 2.56 | 1.71 | 1.51 | 1.53 |
| Return on Assets | 0.17 | 0.16 | 0.15 | 0.08 | 0.09 | 0.11 | -0.03 | -0.12 | -0.01 | 0.11 | 0.12 | 0.09 |

# Part 1 of Project



# References

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