



**NOVA**

**IMS**

Information  
Management  
School

# Group Assignment

Company assessment

# Rules

- The next slides will give the groups the case setting and information regarding this fictional company
- Further information on the sector and expected evolution can be researched and will be a plus
- The project is set in the case context of a student who has been offered employment with a hypothetical firm and wishes to determine if the firm is in sound financial condition before deciding whether to accept the job
- The case should be written through the eyes of the persona (student seeking for the job)

- Although there is no rigid format for the report, you will need to:
  - Make an introduction describing the sector and the positioning of the company
  - Analyze the financial statements provided, calculate and comment the financial ratios given in class
  - Make a critical assessment of the company and provide some ideas for improvement
  - Fundament your decision on whether you will take the job or not

Case Setting: It is Spring 2020, you have finished your graduate studies and you are looking for full-time employment. BioCosmetics, Inc. (BC) has offered you a position as product manager. Before accepting the job, however, you want to evaluate BC's financial performance to make sure it is a sound company.

BC has provided you a copy of its year-end 2017, 2018, and 2019 balance sheets and income statements (Exhibit 1), and you plan to obtain industry data from available sources on the internet. Your task now is to assess the financial condition of BC through both 1) a 2017-19 trend (historical) analysis and 2) a 2019 peer group (industry) analysis.

Remember: In doing your analysis you are essentially telling a story about BC's financial performance over the last few years and relative to other similar-sized firms in the industry.

## About BioCosmetics

BioCosmetics was founded in 2012 by John Doe and Jane Doe. The Doe's had a long experience in the cosmetic and personal care industry (CPC), and they saw an opportunity in the growing interest in natural and organic products to start their own firm focused on the natural organic cosmetics (NOC) segment.

BioCosmetics positioned itself from the start as a curator and one stop shop for the NOC segment, providing an extensive portfolio of products and online consults with experts on skin and hair to help customers and potential customers find the right products for their needs. It had immediate success, and sales increased steadily in the first few years.

BC started as an online shop and evolved in 2015 to the brick and mortar world opening two shops, in Berlin and Dusseldorf. The Doe's wanted to increase that physical presence but were afraid of the fixed costs and the pandemic also delayed their investment in physical shops.

## Exhibit 1

Biocosmetics, Inc.  
Balance Sheets (\$000)

	December 31		
	2017	2018	2019
<b>Assets</b>			
Current assets			
Cash	1,512	1,176	1,097
Accounts receivable	6,237	10,271	15,919
Inventories	4,536	7,838	12,570
Prepaid expenses	<u>3,780</u>	<u>5,140</u>	<u>6,840</u>
Total current assets	16,065	24,425	36,426
Gross fixed assets	6,300	9,080	12,918
Less: Accumulated depreciation	<u>2,050</u>	<u>2,958</u>	<u>4,250</u>
Net fixed assets	4,250	6,122	8,668
Intangible assets	567	588	605
All other noncurrent assets	<u>1,323</u>	<u>1,790</u>	<u>1,985</u>
Total Assets	<u>22,205</u>	<u>32,925</u>	<u>47,684</u>
<b>Liabilities and Stockholders Equity</b>			
Current liabilities			
Notes payable	1,205	3,243	6,323
Current maturities--L.T.D.	1,008	1,460	2,246
Accounts payable	3,570	5,958	9,955
Income taxes payable	84	336	336
Accruals	<u>1,995</u>	<u>3,360</u>	<u>5,016</u>
Total current liabilities	7,862	14,357	23,876
Long-term debt	<u>2,940</u>	<u>6,100</u>	<u>9,350</u>
Total Liabilities	10,802	20,457	33,226
Stockholder's equity			
Common stock <sup>1</sup>	3,360	3,360	3,360
Paid-in capital	2,100	2,100	2,100
Retained earnings	<u>5,943</u>	<u>7,008</u>	<u>8,998</u>
Total stockholders' equity	<u>11,403</u>	<u>12,468</u>	<u>14,458</u>
Total liabilities & equity	<u>22,205</u>	<u>32,925</u>	<u>47,684</u>
Market price per common share	17.25	17.71	18.43

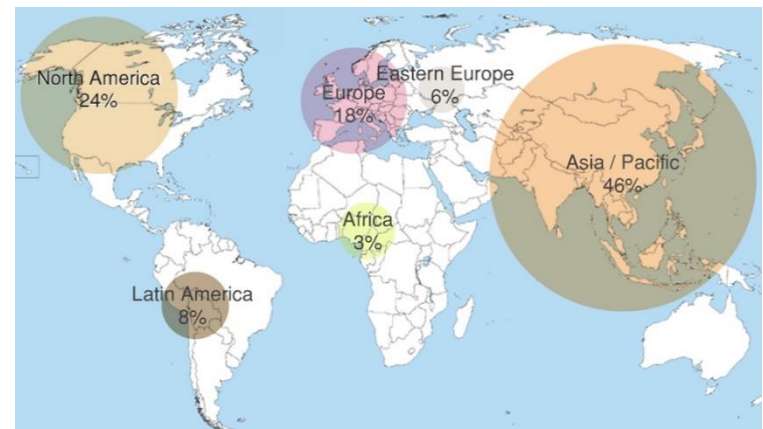
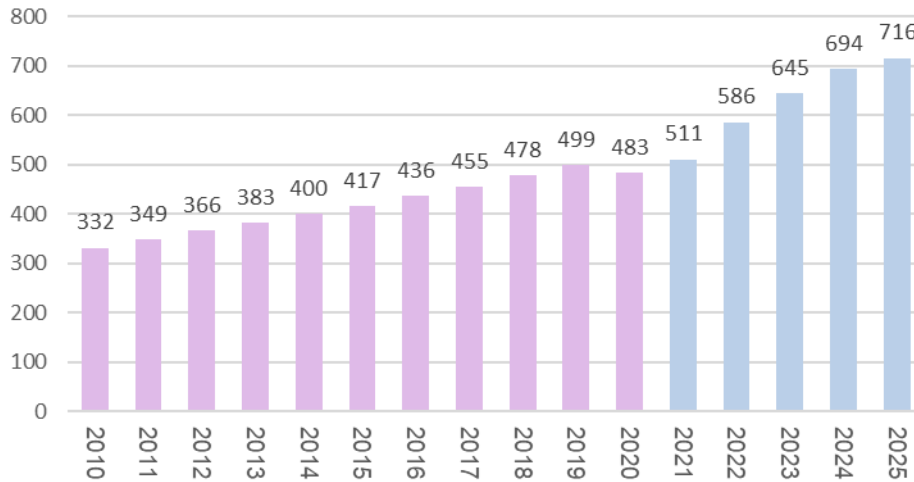
## Exhibit 1 (continued)

Biocosmetics, Inc.  
Income Statements (\$000)

	2017	2018	2019
Sales revenue	50,400	65,100	81,312
Less: Cost of goods sold	<u>35,431</u>	<u>45,872</u>	<u>57,098</u>
Gross profit	14,969	19,228	24,214
Less: Operating expenses			
Gen. & Adm. and Selling	12,331	15,099	17,296
Depreciation	<u>630</u>	<u>908</u>	<u>1,292</u>
Total operating expense	<u>12,961</u>	<u>16,007</u>	<u>18,588</u>
Operating income (EBIT)	2,008	3,221	5,626
Less: Interest expense	<u>335</u>	<u>756</u>	<u>1,343</u>
Earnings before taxes (EBT)	1,673	2,465	4,283
Less: Income taxes (34%)	<u>569</u>	<u>838</u>	<u>1,456</u>
Net income	<u>1,104</u>	<u>1,627</u>	<u>2,827</u>
Dividends paid	314	562	837

# The CPC and NOC markets

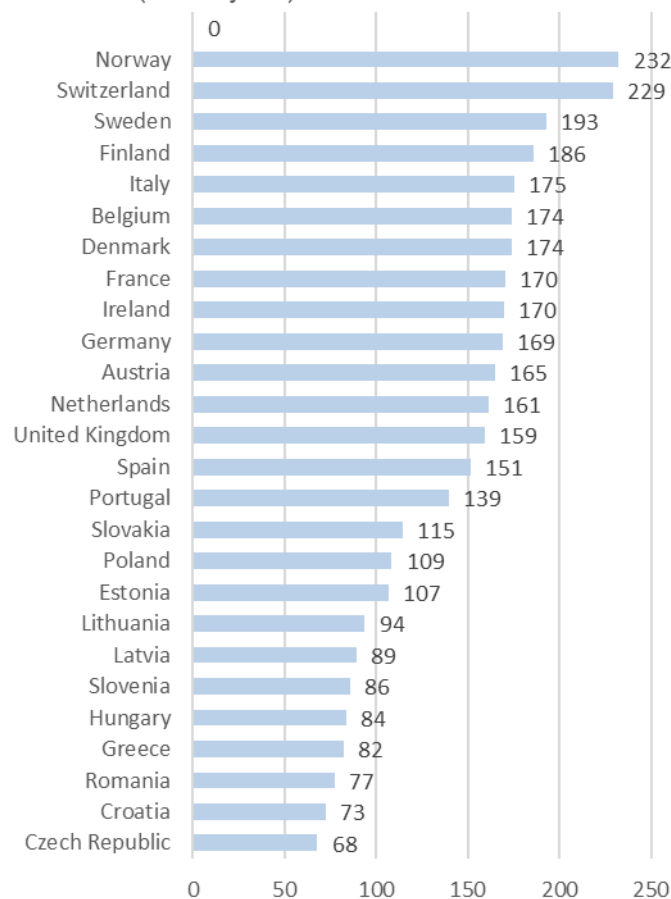
CPC market in USD billion



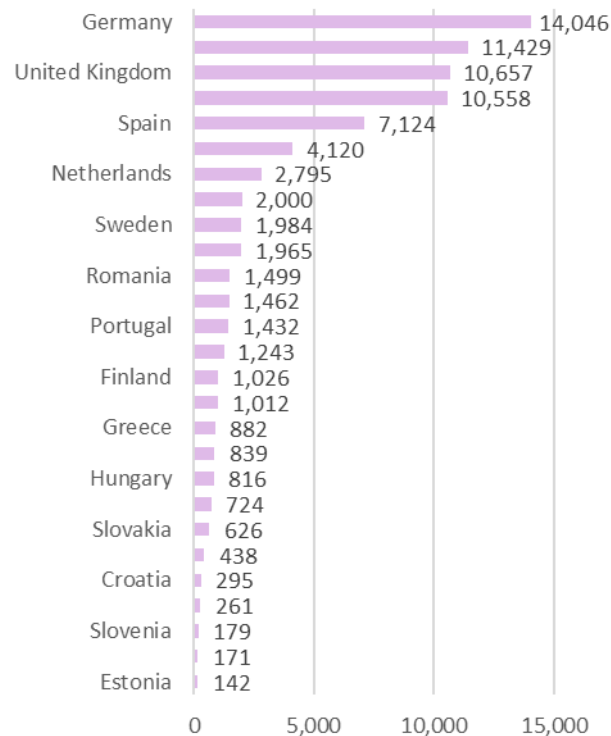


# The CPC and NOC markets

CPC per capita in Europe  
(euros/year)

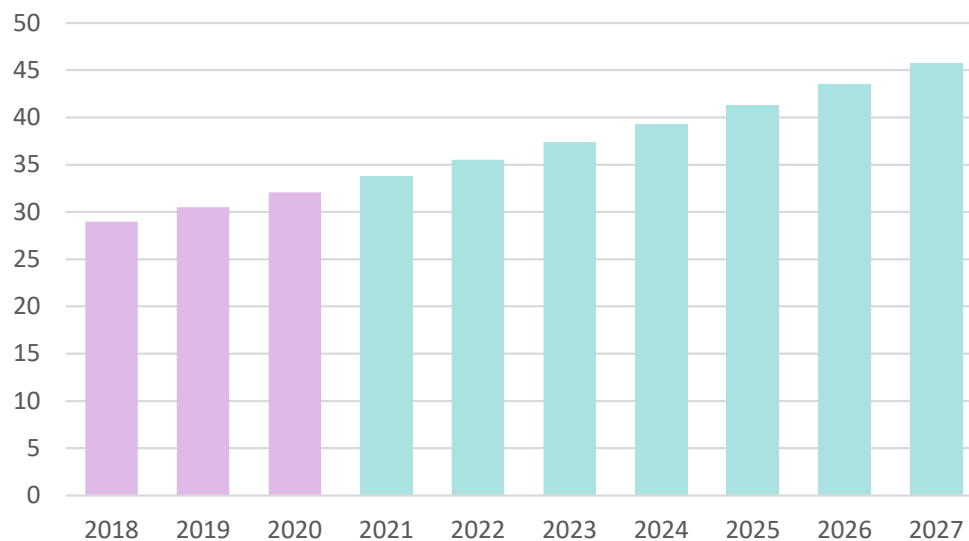


CPC in Europe (€ Million)



# The CPC and NOC markets

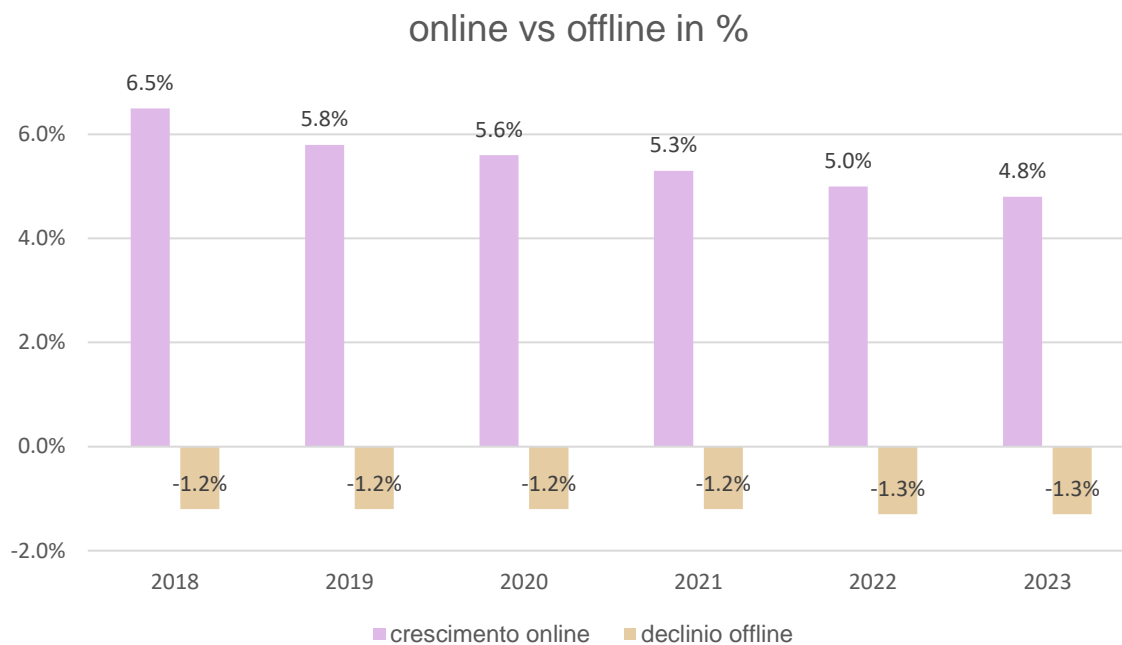
## NOC Market Billion USD



# The BC Offer



# Sales channels



# Market evolution

	NOC		Expected CAGR
	(million euros)	% of market	to 2027
Germany	2,599	19%	4.8%
Italy	1,645	16%	8%
Spain	784	11%	9%
France	731	6%	18.07%
Sweden	514	5%	16.57%
UK	258	2%	20%

fontes: Statista 2021, Premium Beauty News, Stanpa

## Liquidity

1. Look at the current ratio and the quick (acid-test) ratio of BC. What trends do you notice over 2003-05, and what does this suggest about BC's liquidity? How does BC's liquidity in 2005 compare with the industry average?
2. Now study the accounts receivables turnover and inventory turnover of BC. What do these patterns suggest about the firm's conversion of accounts receivable and inventories to cash?
3. Considering your answers to the two questions above, what is your overall assessment of BC's liquidity position? What two major factors account for your assessment?

## Asset Management

1. What is your assessment of the manner in which BC is managing its assets?  
Pay attention to both trends and industry averages.

## Financing of Assets

1. What is your assessment of the manner in which BC is financing its assets? Pay attention to both trends and industry averages. What is the relationship between the total debt ratio and times interest earned as these relate to BC? And is there any other possible explanation (outside of the firm's financial statements) for the observed trend in times interest earned?

## Profitability

6. What can you say about BC's operating profit margin and pre-tax net profit margin? Explain any patterns observed.
7. How are BC's pre-tax net profit margin, total asset turnover, and total debt ratio affecting the firm's pre-tax return on assets (ROA) and return on equity (ROE)? What is your overall assessment of the firm's profitability, including its earnings per share (EPS)?

## Cash Flow

8. Referring to BC's statement of cash flow for 2004 and 2005, assess BC's cash flow situation noting both inflows and outflows?



## Overall Evaluation

9. Based on your answers to the questions above, what is your overall evaluation of BC's financial condition? (Pull all your analysis together in answering this question.)
10. What is the market's assessment of BC's financial condition? Explain. Does the market's assessment confirm or refute your analysis?
10. Based on your evaluation of BC and the market's assessment of the firm, would you accept employment with the company? Explain.