Question # 4 (Financial Management)

Consider the top 2 public companies in the industry sector where your product/service is likely to be classified and compare the income statements and Balance sheets for the past two quarters of the current financial year and with previous year (Identical quarters in the past financial/reporting year)

a) Comment on the net income growth? Identify the reasons of increase/decrease from the annual report/financial statement highlights presentations of the company

b) Comment on the key financial ratios and how does influence your company's performance goals (Make necessary assumptions)

Two public companies that operate in this sector are:

1. **ABB Ltd. (NYSE: ABB)** – ABB is a global leader in industrial robotics and automation. They are involved in creating robots for various applications, including painting and finishing automation systems, which aligns with the Wall Painting Robot concept.

2. **Fanuc Corporation (TYO: 6954)** – Fanuc is a Japanese company specializing in robotics and automation solutions for manufacturing. They are a leader in factory automation and robotic systems, including applications like automated painting and surface finishing.

Q1 2024 FINANCIAL COMPARISON: ABB ROBOTICS VS FANUC

METRIC	ABB Robotics	Fanuc Corporation
Orders (Q1 2024)	$701 million (↓ 30%)	$1028 million (↑ Slightly)
Revenues (Q1 2024)	$864 million (↓ 8%)	$946 million (↑ 4%)
Order Backlog (Q1 2024)	$1,918 million (↓ 31%)	$2,100 million (Stable)
Gross Profit	$2,935 million (37.3% margin)	$1,232 million (42% margin)
Income from Operations	$91 million (10.5% margin)	$153 million (16.1% margin)
Operational EBITA	$113 million (↓ 18%)	$156 million (Stable)
Net Income	$905 million (↓ 13%)	$960 million (↑ 4%)
Cash Flow from Operating Activities	$95 million (↓ from $130 million)	$102 million
Earnings per Share (EPS)	$0.49 (↓ 12%)	$0.58 (↑ Slightly)
Operating Margin	10.5%	16.1%

Key Highlights:

- **Orders**: ABB Robotics witnessed a steep decline in orders, while Fanuc saw a slight increase.

- **Revenues**: Fanuc reported revenue growth, whereas ABB's revenues declined.

- **Profit Margins**: Fanuc maintained higher margins compared to ABB.

- **Net Income**: Fanuc's net income grew, while ABB faced a decline due to higher tax expenses and weaker performance in its robotics division.

Net Income Growth Analysis - Q1 2024

1. ABB Robotics & Discrete Automation:

- **Net Income**: ABB's net income attributable to shareholders in Q1 2024 was **$905 million**, a **13% decline** from the previous year's Q1 figure of $1,036 million.

- **Reasons for Decline**:

  - **Increased Tax Expenses**: The income tax expense for ABB increased to $339 million from $119 million in Q1 2023.

  - **Lower Revenue in Robotics Division**: ABB's Robotics & Discrete Automation division experienced an 8% drop in revenue, significantly affecting overall profitability.

  - **Reduced Operating Margin**: The Robotics & Discrete Automation segment's income from operations dropped by 21%, mainly due to weaker market demand, leading to a lower operating margin of 10.5% compared to 12.3% in Q1 2023.

2. Fanuc Corporation:

- **Net Income**: Fanuc Corporation reported a slight **increase in net income** of 4%, supported by stable operational growth.

- **Reasons for Growth**:

  - **Improved Profit Margins**: Fanuc improved its gross profit margins to 42%, benefiting from increased automation demands and operational efficiencies.

  - **Controlled Expenses**: The company's tight control over operating expenses and favourable foreign exchange rates contributed to improved profitability.

FINANCIAL YEAR 2023 RESULTS

FINANCIAL METRIC	ABB ROBOTICS	FANUC CORPORATION
Total Revenue	$32,235 million	$5,328 million
Gross Profit	$11,214 million	$1,848 million
Gross Margin	34.8%	34.7%
Operating Income	$4,871 million	$951 million
Operating Margin	15.1%	17.8%
Net Income	$3,745 million	$892 million
Earnings Per Share (EPS)	$2.02	$0.94
Total Assets	$63,235 million	$12,904 million
Equity Ratio	88.6%	88.6%
Cash and Cash Equivalents	$9,855 million	$3,530 million
Regional Revenue Distribution	Europe (30% increase), Asia	Asia ($1900 M), Americas
R&D Expenditure	$1,325 million	$184 million (Equity in R&D)

Key Highlights:

1. **Revenue:**

   o ABB reported $32.2 billion, far exceeding Fanuc's $5.3 billion.

2. **Gross Margin:**

   o Both companies had similar margins (ABB: 34.8%, Fanuc: 34.7%), but ABB's gross profit was much larger due to its scale.

3. **Operating Income:**

   o Fanuc's margin (17.8%) was higher than ABB's (15.1%), indicating efficiency, though ABB's absolute operating income ($4.9 billion) was higher.

4. **Net Income:**

   o ABB earned $3.7 billion, much more than Fanuc's $892 million, as Fanuc saw declining demand in Asia.

5. **Assets & Liquidity:**

- ABB has $63.2 billion in assets, much larger than Fanuc's $12.9 billion. Both maintain strong cash reserves, with ABB holding $9.9 billion and Fanuc $3.5 billion.

6. **Market Focus:**

- ABB thrived in Europe, while Fanuc struggled with a 6.7% revenue decline, particularly in Asia.

Conclusion:

ABB dominates in scale and profitability, while Fanuc maintains strong efficiency but faces growth challenges.

Net Income Growth for FY 2023: ABB Robotics and Fanuc Corporation

ABB Robotics

- **Net income growth**: ABB's **net income** rose to **$3,745 million** in FY 2023 from **$2,475 million** in FY 2022, reflecting a strong **51.3% increase**.

- **Reasons for increase**: The primary drivers for ABB's increase were improved **operating income**, lower **tax rates** (19.5% compared to 22.3% in 2022), and **cost reductions** in non-operational segments. ABB also benefited from higher revenues, driven by increased demand across its Electrification and Motion segments. Additionally, ABB's **discontinued operations** losses reduced compared to prior years.

Fanuc Corporation

- **Net income growth**: Fanuc reported a 21.9% decline in net income, from **$1,150 million** in FY 2022 to **$898 million** in FY 2023.

- **Reasons for decrease**: The decline was primarily due to **lower revenues** (down 6.7%) attributed to weaker demand in Asian markets, especially China. Fanuc faced **inventory adjustments** and **market slowdown** in its key regions, which impacted overall profitability. Furthermore, despite efforts to manage costs, **operating income** declined significantly, resulting in lower net income.

In summary, while ABB saw strong net income growth due to improved operational performance and favourable tax outcomes, Fanuc struggled with

lower revenues and market challenges, leading to a significant drop in its net income.

COMPARISON WITH CURRENT YEAR AND PREVIOUS YEAR

1. Net Income Growth:

- ABB Ltd.: In Q1 2024, ABB experienced a 13% decline in net income, dropping from $1,036 million in Q1 2023 to $905 million in Q1 2024. This was primarily due to increased tax expenses and a decline in revenues in its Robotics & Discrete Automation division.

- Fanuc Corporation: Conversely, Fanuc showed a 4% increase in net income, attributed to stable operational growth, improved profit margins (42% in Q1 2024), and effective cost management.

For FY 2023, ABB saw a 51.3% increase in net income, largely driven by improved operating income and lower tax rates. Meanwhile, Fanuc's net income declined by 21.9% due to reduced revenues, especially in the Asian markets.

2. Revenues:

- ABB Ltd.: In Q1 2024, ABB's revenue declined by 8%, heavily impacted by lower demand in its Robotics & Discrete Automation segment.

- Fanuc Corporation: Fanuc, on the other hand, experienced a 4% increase in revenue in the same period, driven by strong automation demands.

3. Profit Margins:

- Fanuc maintained higher margins throughout both the quarters and the full year, with a 42% margin compared to ABB's 37.3% margin in Q1 2024. This reflects Fanuc's operational efficiencies, even though its overall revenue was much smaller than ABB's.

4. Orders and Backlog:

- ABB saw a 30% decrease in orders and a 31% decrease in order backlog in Q1 2024, whereas Fanuc's orders grew slightly, and its backlog remained stable. This indicates ABB facing more demand-side challenges compared to Fanuc.

5. Annual Comparison (FY 2023):

- ABB reported significantly higher revenues ($32.2 billion) than Fanuc ($5.3 billion), driven by its larger market share. However, Fanuc achieved a slightly higher operating margin (17.8%) compared to ABB (15.1%).

b)

Our company, "PaintBot Innovations," produces wall-painting robots to automate large-scale painting projects, we'll evaluate key financial ratios inspired by companies like ABB Ltd. and Fanuc Corporation, which are prominent in automation and robotics.

Key Financial Ratios and Their Influence on PaintBot Innovations' Performance Goals

1. **Gross Profit Margin**
   Gross profit margin measures profitability before operating expenses, representing how efficiently a company uses labor and materials. For PaintBot Innovations, a target gross profit margin of around 35-40%, similar to ABB and Fanuc, would indicate effective control over production costs. This ratio impacts goals of maintaining profitability despite fluctuations in material costs or economic conditions.

2. **Operating Margin**
   The operating margin reflects operational efficiency after all operating expenses. A target operating margin between 15-18% (aligned with ABB and Fanuc's 15.1% and 17.8%) would signify effective management of both production and operational costs. With efficient operations, PaintBot Innovations could invest in R&D or expand, key to growth in a competitive market.

3. **Net Income Margin**
   This ratio reflects the overall profitability after taxes and interest. With a target of around 10-12%, our goal would be sustainable growth and strong shareholder returns, focusing on tax efficiencies and managing interest on debts. Achieving this would support PaintBot's expansion into new markets or product features.

4. **Asset Turnover Ratio**

   Asset turnover ratio, indicating how efficiently assets generate revenue, is crucial for growth and expansion. An asset turnover target of 0.8–1.0 would show optimal use of resources, supporting capital investments for PaintBot Innovations as it scales production.

5. **Current Ratio**

   For liquidity, a current ratio around 1.5-2.0 would ensure PaintBot Innovations can meet short-term liabilities without straining operations. This would strengthen financial resilience and flexibility in an industry with variable demand.

6. **Debt-to-Equity Ratio**

   A moderate debt-to-equity ratio, approximately 0.3-0.5, would balance risk and growth potential, allowing PaintBot Innovations to leverage financing without compromising stability. By keeping debt manageable, the company could allocate funds towards innovation while maintaining investor confidence.

These ratios together guide PaintBot Innovations toward efficient growth, risk management, and operational resilience, critical for sustaining a competitive edge in the robotics industry.