**Financial Analysis - Smitherman’s Salish Sea Oysters**

With the tremendous decline in the number of wild oysters, Darlene’s family business suffered a lot, and thus she plans to expand the family business into farming locally grown oysters. However, new businesses are highly likely to fail. That’s why financial analysis is needed in order to test whether the business is viable before more money is invested. This financial analysis aims to analyze the financial performance of Smitherman’s Salish Sea Oysters and make a reasonable conclusion about whether Darlene should proceed with growing the business or not.

The given projected ratios give valuable information on the future prospects of the business. The current ratio is expected to increase slightly over the next three years, from 1.19 to 1.26. The higher the current ratio is, the better the business is in terms of repaying its current liabilities. The steady increase in the current ratio implies that the company will be growing such that it will have more liquid assets to pay off the liabilities. The difference between the company’s current ratio and that of the industry is insignificant, and thus, it is likely that the company will become a key player in this industry in the next few years. The next ratio is the acid-test ratio, which is basically the current ratio without considering the inventories. There is a projected increase in acid-test ratio test, from 0.51 in 2018 to 0.63 in 2020. It actually implies that the business distributes its current assets much more on inventories which can not be turned into cash quickly. In other words, the business could be too optimistic about its ability to make sales. The company has a lower acid-test ratio than the industry norm, which suggests that the company will take much higher risks than its competitors due to a lower proportion of liquid resources in the first few years. In the case study, it is said that one of the local hatcheries is able to produce more than 40 million oysters in a good season. That explains why the average acid-test ratio for the industry is below 1. The third important ratio is the debt ratio, which measures the extent of a company’s leverage (Hayes, 2021). It is estimated that there will be a steady decrease in this ratio. It implies that most of the business’s assets are financed by debt initially. From the case study, we learn that her family business was threatened by several factors and it became hard to make money. That may explain why the business will rely more on debt at first. In relation to the industry norm of 50%, the chances are that the business could suffer more than its competitors in terms of additional funding from the banks. Relying more on debt makes it more difficult to borrow money from the banks because the banks are worried that they may not get the money back. The fourth ratio profit margin will increase from 4% in 2018 to 7% in 2020. That is to say, more profit is estimated to be made during these three years. This implies that the business is skillfully administered such that more revenues are made each year and the expenses are controlled within a reasonable range. In respect to the industry average, the business’s profit margin surpasses it only after 3 years, which implies that the business must have something special in order to stand out in this market and win over other competitors. For instance, as said in the case, the founder of the business is really good at maintaining good relationships with customers. Perhaps this will help attract more customers and further develop customer loyalty. The return on assets ratio measures how profitable a business is relative to its total assets and it is projected to increase from 3% in 2018 to 5% in 2020 (Hargrave & James, 2021). Since the ROA ratio climbs over time, this implies that the company could be trying hard to maximize the profit for each dollar it invests. The ROA ratio in 2020 is slightly smaller than the industry norm. It implies that some of the assets invested are not necessary and the company could be ineffective in utilizing its assets. The last one is inventory turnover, which is a financial ratio showing how many times a company has sold and replaced inventory during a given period (Fernando, 2021). The inventory is estimated to decrease over time, which implies that the business could be too optimistic about its ability to make sales and perhaps have problems like overstocking. The inventory turnover is smaller than the industry average, which implies that the business could be setting the price too high so that fewer customers purchase the product. That’s why the company’s inventory turnover is less than that of its competitors.

Based on the statistics, business is going to have a prosperous future. However, there are some flaws that the founder should be cautious about. For example, she needs to distribute the current assets in a practical way such that all the items are balanced and should also pay attention to which assets are essential and set the price as they will influence the overall financial performance. With all this, it is reasonable to draw the conclusion that the proposed new venture has relatively strong financial strength and Darlene should proceed with growing the family business.

**References**

Hayes, A. (2021, May 19). *Debt Ratio*. Investopedia. Retrieved from https://www.investopedia.com/terms/d/debtratio.asp

Hargrave, M., & James, M. (2021, June 9). *How to Use Return on Assets When Analyzing a Company*. Investopedia. Retrieved from https://www.investopedia.com/terms/r/returnonassets.asp

Fernando, J. (2021, July 6). *Inventory Turnover*. Investopedia. Retrieved from https://www.investopedia.com/terms/i/inventoryturnover.asp