Islanders Greenhouse Ltd Financial Analysis

Introduction

The Greene family is evaluating the possibility of expanding their hydroponic farming business by building a 10 000m2 greenhouse to start a new production line of lettuce. It is a large investment with the possibility of becoming a large player in the maritime lettuce grower, especially during the winter months when the majority of produce is imported from the United States. The expansion plans have high costs, but the potential of great rewards. The following is a financial analysis to determine the feasibility and risks associated with proceeding with the proposed venture.

Ratio Analysis

The commissioned financial analysis returned a per forma balance sheet and income statements for the years 2014, 2015, and 2016.

While the current ratio was found to be below the industry standard, over the 3 years it has been growing quickly and appears to be converging on the average. Being below the industry standard at the beginning of a venture is to be expected as there are large startup costs to be overcome. The steady growth, and fact that by 2016 the current ratio was only 0.02 below the industry standard is a good indication to potential investors that the company can be trusted to payback their short-term debts.

Similarly, the acid-test ratio, a measure of how quickly a company can extinguish current liabilities immediately, started below the standard but has been rising linearly over the three-year study. As the bank’s loan is continually paid off in the years to come, and lettuce production increases as a result of owner’s experience, the acid-test ratio will be observed to continue towards the standard.

In the year 2014 Islanders Greenhouse’s debt ratio was recorded at 55%, the following two years it decreased 1% each year. This would imply that by the year 2019, the company’s debt ratio will the industry standard. In the event that the company enters no more debt, their ratio should reach 0% in the year 2034, after their 20 year annuity bank loan is paid off.