Question1.What factors can affect the composition of a company's current assets vs. long-term assets?

Answer 1.Some of the factors can affect the composition of a company's current assets vs. long-term assets are as follow:-

Nature of Business: Capital-intensive industries (e.g., manufacturing) tend to have more long-term assets, while service and retail companies focus on current assets like cash and receivables.

Growth Stage: Startups usually hold more current assets, while mature companies accumulate more long-term assets.

Financing Strategy: Debt-heavy firms may prioritize liquid current assets, while growth-oriented companies invest in long-term assets.

Liquidity Needs: Companies with higher liquidity requirements focus on current assets.

Industry Cycles: Cyclical industries hold more current assets during downturns.

Tax and Regulation: Tax incentives and regulatory demands can drive investments in long-term assets.

Mergers/Acquisitions: Acquisitions can boost long-term assets, while divestitures may reduce them.

Question2. How can a company's debt-to-equity ratio impact its creditworthiness and access to capital?

Answer 2A high debt-to-equity ratio means a company is heavily financed by debt, making it riskier in the eyes of lenders and investors. This can lower its creditworthiness, as high debt levels increase the likelihood of financial distress. As a result, the company may face higher interest rates or stricter borrowing terms.

In contrast, a low debt-to-equity ratio signals stronger financial stability, making the company more attractive to lenders and giving it easier access to capital at better rates. A balanced ratio indicates the company effectively manages both debt and equity, improving its overall financial health and creditworthiness

Question3. Debt-to-Equity Ratio: How has the debt-to-equity ratio changed over the four years? (take in consideration total liabilities and total equity)Is the company relying more on debt financing or equity financing?

Answer 3

Debt-to-Equity Ratio = Total Liabilities/Total Equity

Calculating the ratio for each year

Debt-to-Equity Ratio 2018 = 27727/13103 => 2.12
Debt-to-Equity Ratio 2019 = 29816/15584 =>1.91
Debt-to-Equity Ratio 2020 = 36851/18705 =>1.97
Debt-to-Equity Ratio 2021 = 41190/18078 => 2.28

The company is increasingly relying on debt financing, with the ratio rising over time, especially in 2021.

Impact Analysis

This can affect profitability and potentially lower its credit rating, making borrowing more expensive. While leveraging debt can enhance returns for shareholders, it also heightens the risk of financial distress, especially if cash flows are insufficient to cover debt payments. Proper management is crucial to balance the benefits and risks of higher debt levels.

Question4. Revenue Growth: How has the company total revenue grown over the three years? What segments are driving this growth (merchandise sales, membership fees)?

Answer 4

Revenue Growth Analysis
The total revenue of the company has shown steady growth over the three years:
<u>Formula used = (Revenue2020-Revenue2019/Revenue2019)*100</u>
2019: $152,703 million
2020: $166,761 million (growth of approximately 9.4%)
2021: $195,929 million (growth of approximately 17.5%)

<u>**Segment Contribution to Growth**</u>
<u>(a)Merchandise Sales Revenue:</u>
2019: $149,351 million
2020: $163,220 million (growth of approximately 9.3%)
2021: $192,052 million (growth of approximately 17.7%)
Merchandise sales have consistently driven the bulk of total revenue growth.
<u>(b)Membership Fee Revenue:</u>
2019: $3,352 million
2020: $3,541 million (growth of approximately 5.6%)
2021: $3,877 million (growth of approximately 9.5%)
Membership fees also contributed to revenue growth but at a slower pace compared to merchandise sales.

Overall, the company's total revenue has grown significantly over the three years, primarily driven by strong growth in merchandise sales, while membership fees contributed at a slower rate.

Question5. Gross Margin: Calculate and compare the gross margin (consider total revenue and total expense) across the three years. Is the company able to maintain or improve its margins?

Answer 5 To calculate the gross margin for the company, we need to determine the gross profit for each year, which is calculated as follows:
Gross Profit=Total Revenue−Cost of Goods Sold (COGS)
In this case, COGS can be considered as the merchandise costs.
Calculating Gross Profit
For 2019:
Total Revenue = $152,703 million
Merchandise Costs (COGS) = $132,886 million
Gross Profit2019=152,703−132,886=19,817 million
For 2020:
Total Revenue = $166,761 million
Merchandise Costs (COGS) = $144,939 million
Gross Profit2020=166,761−144,939=21,822 million
For 2021:
Total Revenue = $195,929 million
Merchandise Costs (COGS) = $170,684 million
Gross Profit2021=195,929−170,684=25,245 million

Calculating Gross Margin
Next, we calculate the gross margin for each year using the formula:
Gross Margin=(Gross Profit/Total Revenue)×100
For 2019:
Gross Margin2019=(19,817/152,703)×100 = 12.97%
For 2020:
Gross Margin2020=(21,822/166,761)×100 = 13.06%
For 2021:
Gross Margin2021=(25,245/195,929)×100 =12.89%

The company was able to improve its gross margin from 12.97% in 2019 to 13.06% in 2020. However, it experienced a slight decline to 12.89% in 2021. Overall, the margins have been relatively stable, indicating the company's ability to manage its costs effectively in 2020, with a marginal decline in 2021.

Question6.How can investors utilize free cash flow analysis to compare different companies in the same industry?

Answer 6 Investors use free cash flow (FCF) analysis to compare companies' financial health, profitability, and growth potential within the same industry. Companies with higher FCF are more stable, efficient, and better positioned for growth, while those with lower or negative FCF may face higher risks and rely more on external financing. FCF helps assess which firms are better at generating cash and reinvesting for future success.