Financial Statement Analysis

Accounting for Managers 6305.502

-Rasika Kulkarni

Contents

Introduction

NIKE Inc. is an American multinational corporation, was incorporated in 1967 under the laws of the State of Oregon. Nike's chief business movement is the outline, improvement and overall advertising and offering of athletic footwear, attire, gear, adornments and administrations. NIKE is the biggest dealer of athletic footwear and attire on the world. Nike pitches their items to retail accounts, through NIKE-claimed retail locations and internet websites and through a blend of free wholesalers and licensees all through the world.

Skechers is an American lifestyle and performance footwear company headquartered in Manhattan Beach, California, the brand was founded in 1992. It is now the third largest athletic footwear brand in the United States. Skechers has an extensive network of global distributors that sell its product over 2400 Skechers store around the world.

Puma, officially founded in 1948, is a world leader in apparel, sports accessories and footwear for men and women founded originally by Rudolf Dassler. It is a German brand with Headquarters currently in Herzogenaurach, Germany. It has widespread presence in more than 120 countries with a workforce of more than 10,000 people. It has gained huge recognition over recently crossing its revenue of previous highest record of 4 billion euros.

ASICS is a Japanese producer of footwear and sports equipment for various sports. Their name is acronym for a Latin phrase which means “Healthy soul in a Healthy body”. Asics running shoes have been ranked high among the top performance shoes in the market. Recently, ASICS collaborated with Novak Djokovic, winner of 12 Grand Slam Titles, to create tennis footwear “GEL-RESOLUTION™ NOVAK” focused on providing excellent stability to the player on court.

Performing time-series and cross-sectional analysis

Overall Profitability (Comparing Return on Assets, Return on Equity)

Nike, Inc. ROA has been increasing at a good rate approximately 1% from 2015 till 2017, it shows that company is doing well in using its assets to generate earnings (Refer Appendix 1). This could also be attributed to its increase in profit margin by 1% every year. Nikes Asset turnover is decreasing over time, they could work on it. They can do so by either increasing the sales or by reducing the unused assets. When we look at the ROE it has the highest and constantly increasing ROE among the other firms, this means that Nike is good at generating profit with money shareholders have invested.

Asics's ROE increased from 2015 to 2016 at a rate of 0.18% but decreased from 2016 to 2017 at a rate of 0.36%. Total Asset turnover continuously increased from 2015 to 2017, at a rate of approximately 0.7%, from 1.14% to 1.24 %. This shows that the company is using its assets well to generate income. The data shows that Year 2016 is best for Asics as there is an increase in ROE from 0.074% to 0.088%.

Skechers Return on Equity decreased by 2% approximately in 2016 and further decreased by 6% approximately in 2017.Total asset turnover reduced (0.5%) in 2016 and increased by 1.24% in 2017. Return on Asset has slightly decreased by approximately 1% from year 2015 to 2016 but drastically decreased by about 4 % from 2016 to 2017. From this, we can see that 2015 was the best year for Skechers and the return drastically decreased by the end of 2017 and Skechers is not in a good shape.

Puma's Total Asset turnover shows a steady growth with a slight increase from 2015 to 2017 from 1.29% to 1.44%. The ROE has also improved from to 0.023% in 2015 to 0.081% in 2017. This is a clear indication that Puma can generate profit out of the money invested by stakeholders over the 3-year period and it should continue with the current strategy. Also, the ROA of Puma is increasing at a good rate of more than 1% from 2015 to 2017, which is a good sign that company is doing really well in using its assets to generate income.

Components of profitability

Gross Profit is a proportion of money left over from revenues after accounting for the cost of goods sold. Refer Appendix 4 for the analysis.

Nikes gross margin constant every year since 2015, this means that a company is able to pay for its operating expenses

Asics Gross Margin is decreasing by 0.07% every year, this could be attributed to the increase in COGS for the company which is evident from Income statement.

Gross Margin of Skechers increased by 1% in 2016 and continued to increase in 206 and slightly increased in 2017.

Puma's Gross margin are increasing marginally from 0.452% in 2015 to 0.474% in 2017 which clearly states that company is retaining and extracting some money/dollar of every sales for each subsequent year.

Profit Margin measures how much a company keeps out of 1 $. Refer Appendix 3 for the analysis.

Nike's Profit margin is increasing with a good rate from 2015 to 2017 which shows that Nike is managing its expenses very well.

Asics profit margin increased from 0.032% in 2015 to 0.039% in 2016 and decreased sharply to 0.023% in 2017. It means the company is not able to manage its expenses well.

Skechers: Profit Margin of Skechers kept on decreasing from the year 2015 -2015. It decreased even more from 2016-2017.

Asset turnover (Appendix 5) is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company.

Skechers Asset Turnover decreased in 2016 and slightly increased in 2017. It is quite unstable.

Puma's Profit margin is increasing at a good rate from 2015 to 2017 at a good rate which shows the company is increasing its profit per unit of sales and generating more revenue than the operating expenses.

Asics Asset turnover is increasing over the period because the company is using its assets well to generate sales.

Risk Ratios

To measure a firm’s financial health, current and quick ratio can be used to measure liquidity. The main difference between current and quick ratio is that the latter doesn’t include inventories while the former does.

The quick ratio (Appendix 10) measures a company’s ability to meet its short-term obligations with its most liquid assets.

Nikes quick ratio is 1.37 in the year of 2015. The higher the quick ratio, the better the company's liquidity position.

Skechers quick ratio consistently increased from 2015 to 2017.

Asics quick ratio dropped consistently from 1.98 in 2015 to 1.49 in 2017 because the company might be struggling to maintain or grow sales.

Puma’s Quick ratio was 1.04 in 2015 and was reduced to 0.943 in 2017, which means that company's ability to meet its short-term requirements have diluted.

Current Ratio: (Appendix 9) is mainly used to give an idea of the company's ability to pay back its liabilities (debt and accounts payable) with its assets. All the firms used for analysis have current ratios greater than 1 which means that firms liabilities are less than its assets. A high current ratio of 3 or more may suggest that company is not using its current assets efficiently, is not securing financing well or is not managing its working capital well.

Skechers current ratio increased in 2017 and went up to 3.52 from 2.93 in 2016.

Asics has a Current Ratio greater than 3 in all three years.

Nike has a fluctuating Current Ratio over the period.

Puma’s Current ratio has decreased from decreased from 1.91 in 2015 to 1.784 in 2017.

Debt to Equity Ratio (Appendix 8) The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders’ equity. As evident from Appendix 8, we can see that UA’s D/E ratio is increasing every year, this means that UA is getting very aggressive in financing its growth with debt, Aggressive leveraging practices are often associated with high levels of risk. This may result in volatile earnings because of the additional interest expense which is as evident from the Income sheet of UA.

Skechers Debt-Equity ratio decreased from 0.536 in 2015 to 0.495 in 2017.This is a good sign for the company, but it was in a better shape in 2016.

Puma has high D/E ratio in 2017 of 0.755 as compared to its value of 0.626 in 2015. This is not a good sign as it shows that more debt is being consumed in financing its assets relative to shareholder’s equity value.

Asics D/E ratio dropped from 1 in 2015 to 0.91 in 2017 but has the highest D/E ratio among all firms.

Nikes D/E ratio dropped from 0.87 in 2015 to 0.7 in 2017.

Risk Factors

Product offerings, technologies, marketing expenditures, pricing, costs of production, customer service and social media presence are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk to all our firms.

Nike faces immense risk if they are unable to anticipate consumer preferences and develop new products. Currency exchange rate fluctuations can harm their business resulting in lower revenues, higher costs and decreased margins and earnings

Puma is vulnerable to the following threats of being unable to maintain its brand image, tackle the inflow of counterfeit products and manage lack of modernized infrastructure which is disrupting information and product flow and can be a cause of huge loss. Moreover , they should safeguard themselves from violating any environmental/legal law to avoid any penalties and tarnishing of brand image.

Asics is currazently Asia focused, driven and created. They need to improve their profile. They need to have an emotional connect, as a brand, with their customers. They also need improve their customer experience.

Skechers is in a good shape in 2017 and can increase the number of customer by fostering deeper relations with consumers. It can include its number of outlets and distributors to increase its cash flow

Business opportunities & threats

Company Name	Opportunities	Threats

Nike	• Undiscovered Market • Innovation in Products • Add new product like sunglasses, watches etc.	• Cut throat Competition • Dollar low valuation • More involvement in green product
ASICS	• Increase awareness in emerging countries • Implement e-business in the current business model • Become market leader in their segment	• Cheaper substitutes • Good brand awareness by competitors • Increasing indirect players
Puma	• Implementation of effective risk management system to monitor change and counter risk • Filter out counterfeit products through customized logo with a unique identity which are difficult to emulate • Better Hierarchical organization which makes operations lean and leads to better coordination	• Risk of compliance violation • Lack of Transparency • Disrupted enterprise structure

Skechers	• Increased the number of customer by maintaining good relationship with them • Can increase the number of distributors	• Cash flow seems to be low • High competition of other markets

Overall Assessment

The firm that could be most successful in the future is Nike. Following are reasons to support the claim

1. Nikes has a constant increase in ROA it shows that company is doing well in using its assets to generate earnings

2. Investors are usually interested in a company that has high, constant return on equity. Nike's ROE is constant over time. From 2016 to 2017, means that Nike is good at generating profit than other firms with money shareholders have invested

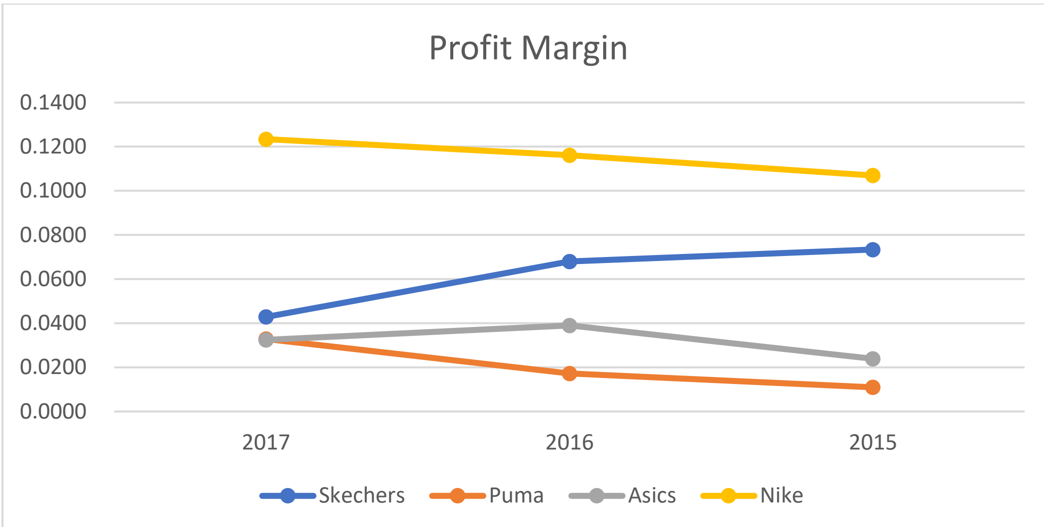
3. Nikes Profit Margin is also increasing every year. It has an average profit margin of 10% throughout 2015-2017. This means that company has an average net income of $0.10 for each dollar of total revenue earned which is a lot more than the other firms (Refer Appendix 3)

4. Nikes Quick Ratio is also very decent. Nike managed to increase it every year by 5-18%.

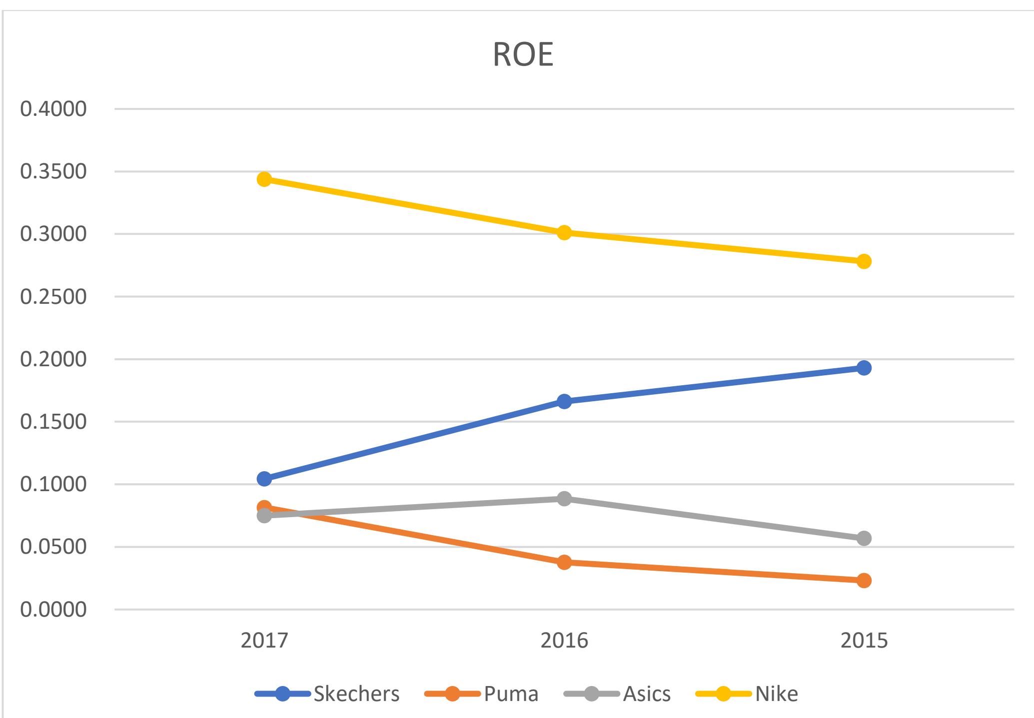
5. Nikes Gross Profit is constant over time which means that revenues after accounting for cost of goods sold is increasing.

Appendix

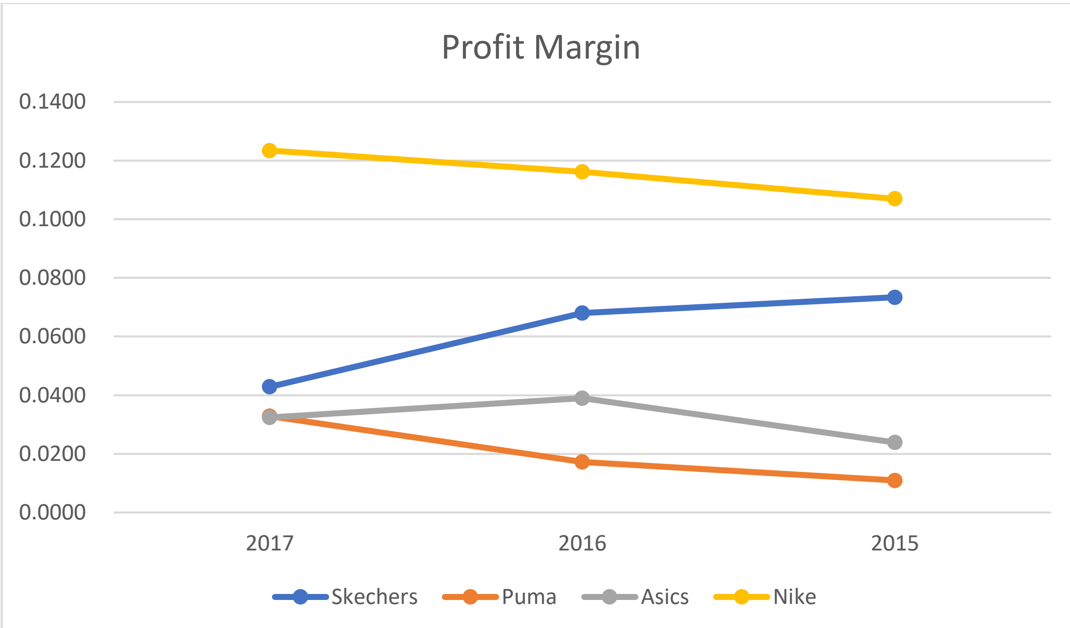
1. ROA



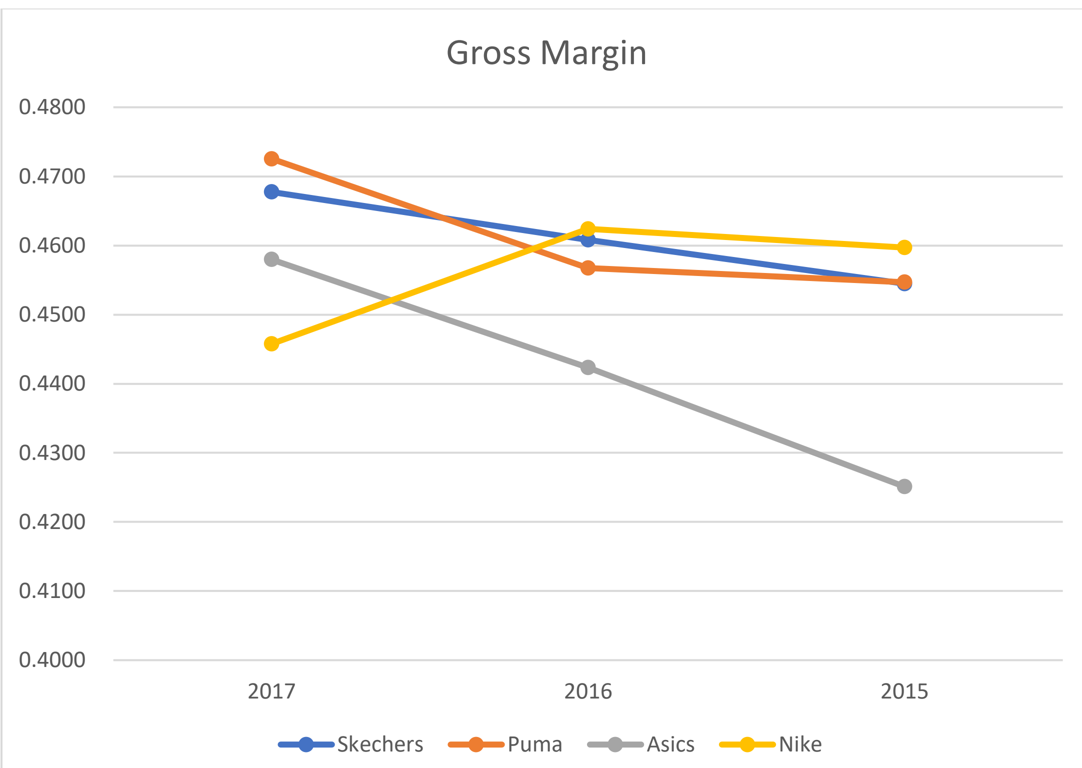
2. ROE



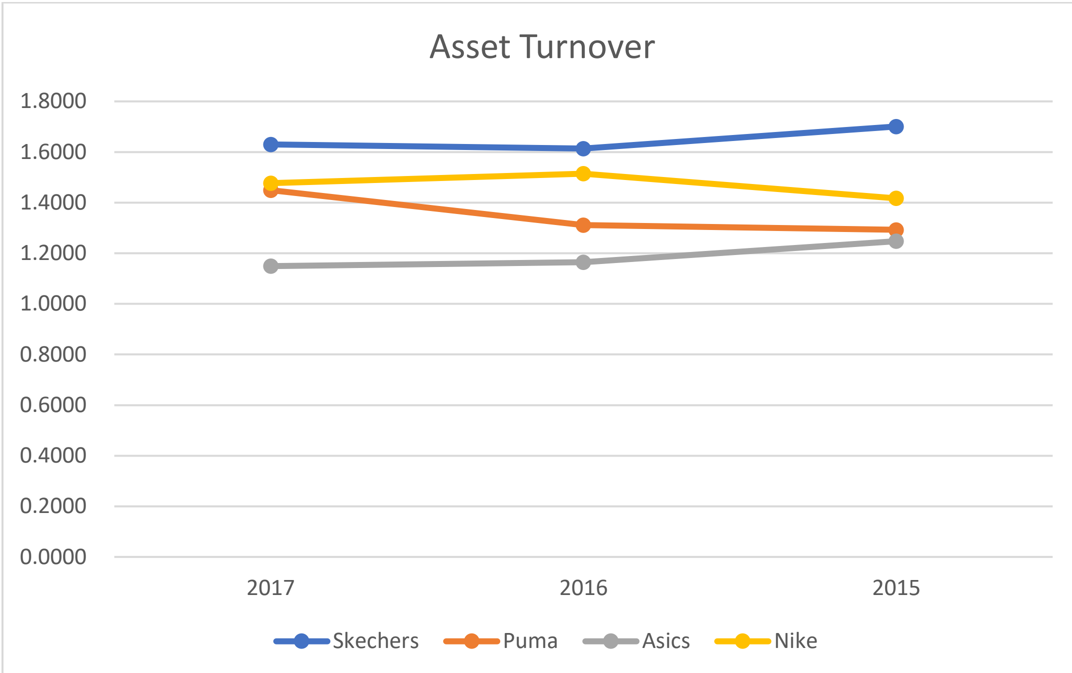
3. Profit Margin



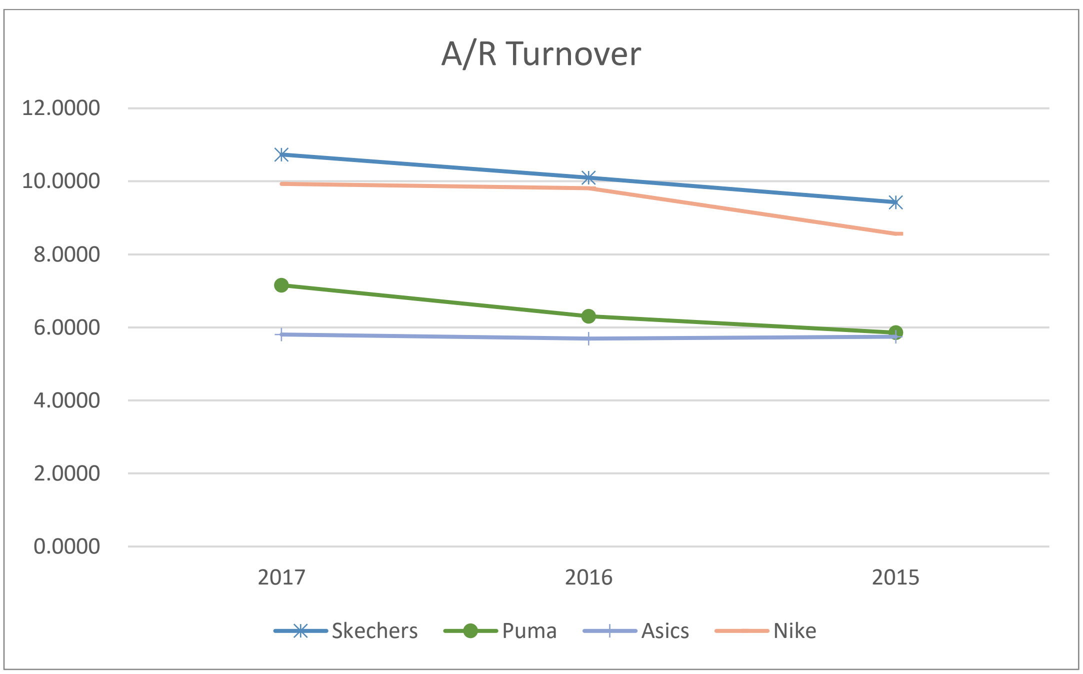
4. Gross Margin



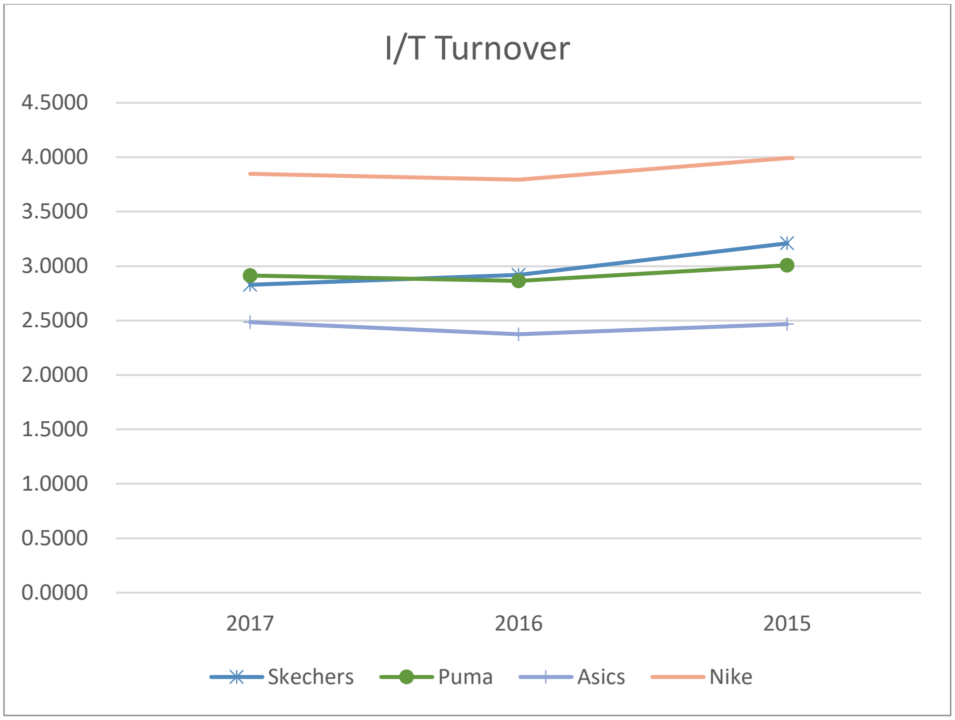
5. Total Asset Turnover



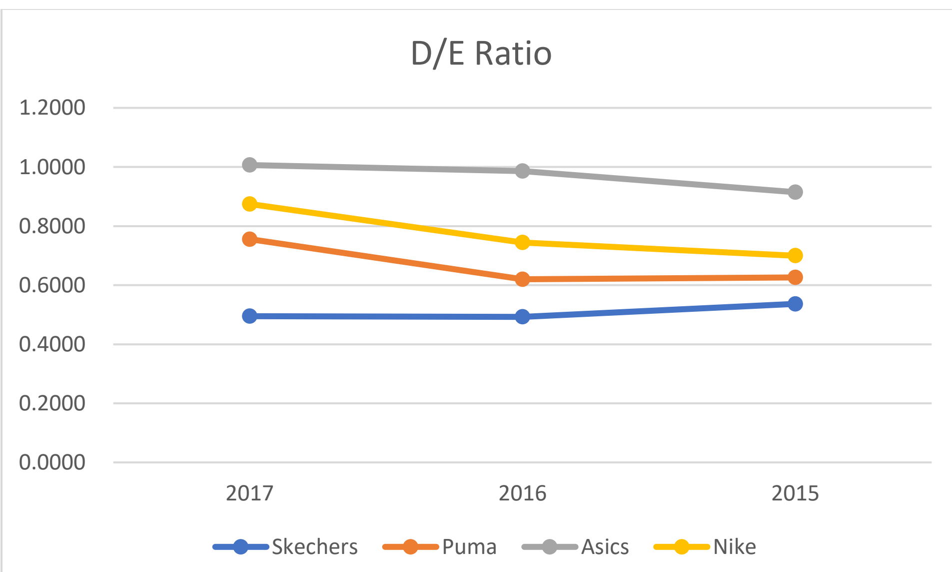
6. Account Receivable Turnover



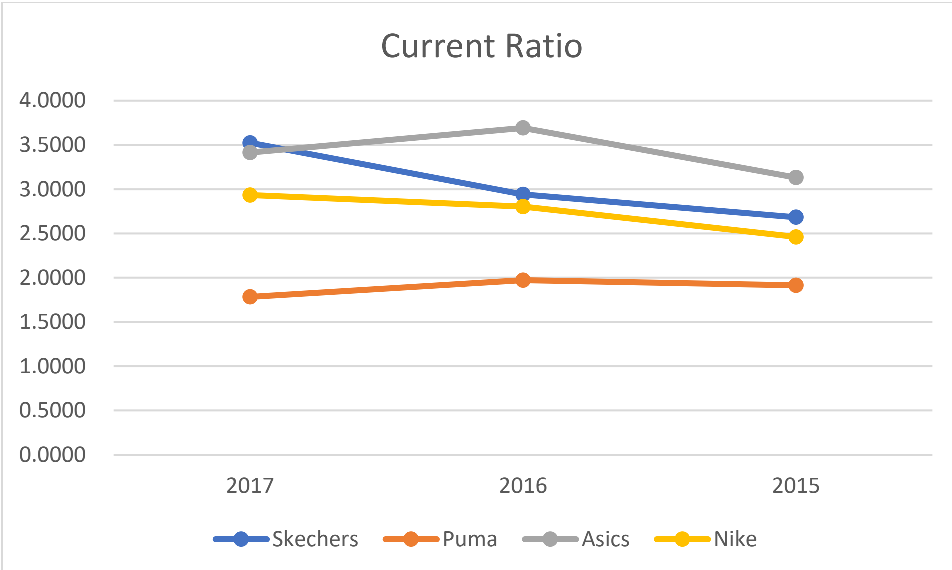
7. Inventory Turnover Ratio



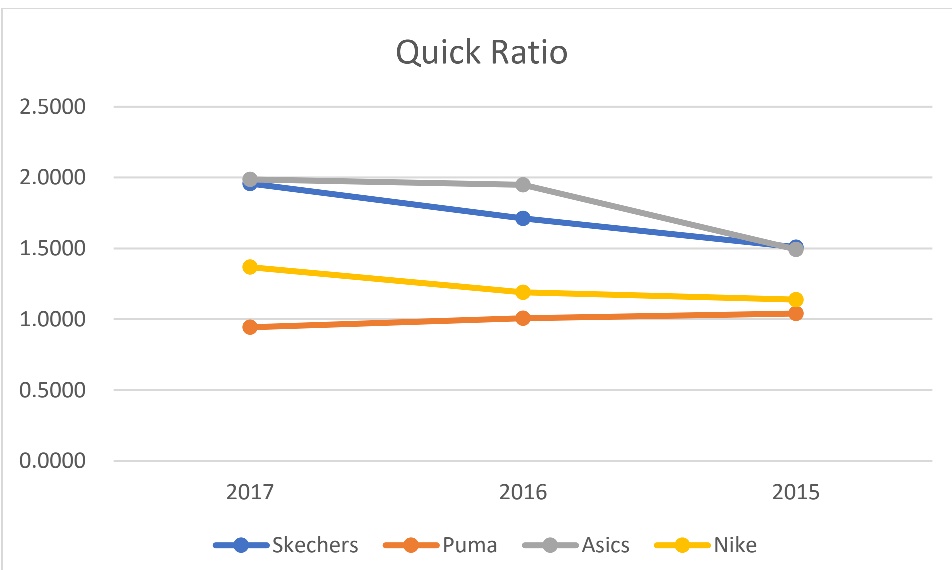
8. Debt to Equity Ratio



9. Current Ratio



10. Quick Ratio



11. Ratio Comparisons

Firm	Skechers			Puma			Asics			Nike		
Year	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Return on Equity	0.1044	0.1661	0.1930	0.08150282	0.03761075	0.0231405	0.07494511	0.0884565	0.05674062	0.3	0.3	0.3
Profit Margin	0.0429	0.0681	0.0734	0.03283445	0.01720572	0.01095235	0.03241228	0.03900207	0.02389054	0.12343523	0.11613541	0.10695729
Gross Margin	0.4677	0.4608	0.4545	0.47254527	0.45672374	0.45468501	0.45797025	0.44234504	0.42510315	0.45	0.46	0.46
Asset Turnover	1.6303	1.6137	1.7008	1.44926063	1.31159813	1.29275274	1.14911036	1.16421537	1.2475609	1.48	1.51	1.42
A/R Turnover	10.7333	10.0961	9.4291	7.15553633	6.30237206	5.85650069	5.80526621	5.69424807	5.74749676	9.93	9.81	8.56
I/T Ratio	2.8284	2.9206	3.2089	2.91371711	2.86401628	3.00724461	2.48484328	2.37388939	2.46654251	3.85	3.79	3.99
D/E Ratio	0.4953	0.4927	0.5366	0.75564442	0.6199543	0.62620245	1.00646481	0.98656738	0.91472389	0.87	0.74	0.70
Current Ratio	3.5239	2.9398	2.6831	1.78400379	1.97273438	1.91454545	3.41344459	3.69134569	3.13124947	2.93	2.80	2.46
Quick Ratio	1.9577	1.7123	1.5088	0.94349266	1.00670466	1.04034091	1.98684913	1.94938792	1.49340392	1.37	1.19	1.14
Return on Assets	0.06987665	0.10984115	0.12485854	0.04758568	0.022567	0.01415868	0.03724528	0.04540681	0.0298049	0.18	0.18	0.15

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