



Sample: Management - Financial Analysis Paper

Introduction

General Electric (GE) has gone an enormous way from a modest laboratory of the great inventor to the corporation on top with a huge number of subsidiaries and divisions, operating in practically all countries of the world. Current activities of General Electric are the development of new, high-speed and reliable aircraft engines, research on processing of inorganic debris, creating cleaner synthetic resins and plastics and, of course, the production of household appliances (including refrigerators). It was set up in April 1892 after the alliance with Thomson-Houston Electric. For 122 years, GE’s managers have been creating a diversified company of the leading industries among their spheres. They developed a wide range of corporate programs in order to expand production and reduce costs. Continuous development of financial resources and internal controls allowed the company to grow even during the most difficult periods.

Summary of Operations

A. Net Sales = Sales – Returns inwards (sales returns):

	2011	2012	2013
Net Sales, USD millions	146,542	146,684	146,045

B. Gross Margin = Gross Profit / Net Sales * 100%; Gross Profit = Sales – Cost of goods sold; or Total Revenue – Cost of revenue total:

	2011	2012	2013
Gross Margin, %	44.0	41.4	40.8

C. Operating Margin = Operating Income / Net Sales * 100%:

	2011	2012	2013
Operating Margin, %	14.2	12.4	11.6

D. Income before Taxes or Earnings Before Interest and Taxes = Total Revenue – Operating Expenses = Operating Income:

	2011	2012	2013
Operating Income, USD millions	20,821	18,192	17,000

E. Net Income = Total Revenue – Total Expenses; and is given in Income statement.



	2011	2012	2013
Net Income, USD millions	14,151	13,641	13,057

F. Summary of Operations Data Assessment/Interpretation

Net Sales are aimed at providing either the actual sales made by the company or the amount of funds that it expects to gain. As GE didn't have any sales returns, Net Sales is equal to Total Revenue, which means that all forms of sales and related deductions are aggregated into a single line item. Gross Margin is a good indication of how profitable a company is at the most fundamental level. GE has enough money left over to spend on other business operations, such as research and development or marketing. Operating Margin demonstrates the level of financial risk, so GE is under high level of financial risk. Concerning Operating Income the higher its level, the more profitable a company's core business is. Shareholders take into account the value of Net Income because it is the crucial source of payment to them (by means of dividends and share buybacks), and in case a company cannot make a sufficient amount of profit in order to reward owners, the shares' value will drop.

Financial Position

A. Working Capital = Current Assets – Current Liabilities:

	2011	2012	2013
Working Capital, USD millions	250,442	258,620	30,687

B. Net Property, Plant & Equipment

	2011	2012	2013
Net Property, Plant & Equipment, USD millions	65,739	68,633	68,827

C. Total Assets is the final amount of all gross investments, cash and equivalents, receivables, and other assets as they are presented on the balance sheet. Total Assets are given in Balance Sheet:

	2011	2012	2013
Total Assets, USD millions	718,189	684,999	656,560

D. Long Term Assets are those held on a company's balance sheet for more than one year:

	2011	2012	2013
Long Term Assets, USD millions	241,858	202,237	455,820



E. Stockholders' Equity = Total Assets – Total Liabilities. Stockholders' Equity is given in Balance Sheet:

	2011	2012	2013
Stockholders' Equity , USD millions	116,438	123,026	130,566

F. Financial Position Data Assessment/Interpretation Summary

Working capital discloses the condition of the financial position of a company better than any other indicator. It tells what would be left if a company raised all of its short term resources, and used them to pay off its short term liabilities. GE's Working Capital in 2013 decreased almost 8.5 times due to Total Receivables. So the company experiences a financial strain. As for Property, Plant & Equipment, the company is provided with necessary stuff and supports it at appropriate level. Long Term Assets of GE are Net Property, Plant & Equipment, Net Goodwill, Net Intangibles, Long Term Investments and Note Receivable – long term. Stockholders' Equity of GE means that, for example, after liquidation of all company's assets, its stockholders will be rewarded.

Financial Ratios

A. Liquidity refers to the business' ability to pay its bills, dues and other similar short term obligations (as and when they become due) without affecting the normal operations. Current ratio is the measurement of the company's ability to pay short-term obligations and is calculated as Current Assets / Current Liabilities:

	2011	2012	2013
Current ratio	2.6	3.2	1.3

B. Leverage relates to how much debt it has on its balance sheet, and it is another measure of financial health. Generally, the more debt a company has, the riskier its stock is, since debt-holders have first claim to a company's assets. This is important because, in extreme cases, if a company becomes bankrupt, there may be nothing left over for its stockholders after the company has satisfied its debt-holders. Debt/Equity ratio = Total Debt / Total Stockholders' Equity.

	2011	2012	2013
Debt/Equity ratio	3.9	3.4	2.9



C. Profitability measures a company’s ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed. Return on Equity = Net Income / Total Stockholders’ Equity.

	2011	2012	2013
Return on Equity ratio, %	12	11	10

D. Efficiency ratios are ratios that are typically used to analyze how well a company uses its assets and liabilities internally. Asset turnover is an activity ratio = Total Revenue / Total Assets.

	2011	2012	2013
Asset turnover ratio	0.2	0.21	0.22

E. Financial Ratios Data Assessment/Interpretation Summary

Current ratio demonstrates that GE has readily available assets to pay off its short-term liabilities. GE Debt/Equity ratio measures that the dominant role of a company’s debt-holders over its owners is 3 times higher. So GE is mostly financed by debtor. Return on Equity of GE considers that the company is generating 10% profits for its shareholders. Asset turnover ratio means that GE uses 22% of its assets, and its sales are produced based on 22% of its assets.

Historical view of the financial performance

A. Comparisons with at least 2 major competitors

GE has two major competitors: Siemens AG (Competitor#1) and Koninklijke Philips Electronics N.V. (Competitor#2). Siemens AG (Siemens) is a globally operating technology company with core activities in the fields of energy, healthcare, industry and infrastructure. Siemens business activities focus on four sectors: Energy, Healthcare, Industry and Infrastructure & Cities. Koninklijke Philips N.V. provides a wide range of goods in different domains like healthcare, customer lifestyle, and lighting businesses worldwide. The main achievements are in healthcare: radiation oncology, clinical applications and platforms, and portfolio management; progressive diagnostic imaging (computed tomography, magnetic resonance imaging), and molecular imaging; digital X-ray and mammography; medical alert



and medication dispensing services; and equipment services and support, equipment financing and asset management, and professional services.

In comparison with competitors, GE occupies the premium position. For example, Siemens Total Stockholders' equity is almost 4 times less and amounts to EUR 28,111 million, while Philips increased by EUR 750 million in 2013 to EUR 15,452 million at December 31, 2013. Concerning liquidity, Current ratio of three companies is approximately at the same level (1.3). As for Working Capital Siemens demonstrated the decrease in 2013 and amounted to EUR 9,069 million from EUR 9,501 million in 2012; Philips faced the increase from EUR 3,392 million in 2012 up to EUR 4,131 million in 2013. So Philips' overall health is under pressure.

B. Comparison with Industry Standards

The industry refers to Electronic equipment. Therefore, parameters are the following:

Industry Statistics	
Market Capitalization:	7,544B
Price / Earnings:	14.7
Price / Book:	4.2
Net Profit Margin (mrq):	14.1%
Price To Free Cash Flow (mrq):	15.9
Return on Equity:	24.1%
Total Debt / Equity:	18.4
Dividend Yield:	2.1%

GE indicators are below the market ones. For example, Return on equity is 10%, while industrial one is 24.1%. The same is for Debt / Equity: GE has the value of 2.9, while the industry is 18.4. Price / Book of GE is 1.98.

C. Historical Financial Performance and 3-year Trend Analysis Data show that the indicators of Summary of Operations section decreased in 2013 compared to the previous reporting period (2012). Apart from Net Sales, other indicators were the highest in 2011. As regards the financial position, it became doubtful because Working Capital in 2013 decreased almost 8.5 times in comparison to 2012 due to Total Receivables, but Long Term Assets of GE increased almost twice due to Note Receivable – long term, which unlike a loan is unsecured financing. Stockholders' Equity increased by USD 7,540 million, so the



company's stockholders are secured. Analyzed Current ratio, Debt/Equity and Return on Equity ratios demonstrated the tendency of decline. Only Asset Turnover ratio improved from 0.21 to 0.22 in 2012 and 2013 respectively.

Assessment/Interpretation Summary

Total revenue for the reporting period (2013) of GE is amounted to U.S. \$ 146,045 billion, virtually unchanged compared with the figure for 2012 in the amount of \$ 146 684 000 000. Net profit of GE, available for distribution to holders of ordinary shares of the company, in the Q4 2013 increased by 5 % up to 4,204 billion dollars against a profit of 4,011 billion dollars gained from the same quarter of 2012. Total revenue of GE group for 3 reporting months of 2013 amounted to 40,382 billion dollars, which is 3% higher than in Q4f 2012 in the amount of \$ 39,162 billion. Operating earnings per share for 2013 of GE amounted to \$ 1,64, and for Q4 2013 - \$ 0.53. Results for Q4 2013 are generally in line with the expectations of the experts. According to analysts, the company's revenue for the reporting quarter 2013 should have been U.S. \$ 40.27 billion, and operating income per share would go up from \$ 0.44 to \$ 0.53.

Thus, General Electric is one of the largest corporations in the U.S., engaged, among other things, in the production of jet engines, railroad locomotives, and construction of water treatment plants. The business corporation includes such segments as energy infrastructure, aviation, health, transport, solutions for homes and businesses, as well as the financial arm of GE Capital.

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Appendix
Appendix 1. Company Income Statements

Fiscal data as of Dec 31 2013	2013	2012	2011
REVENUE AND GROSS PROFIT			
Total revenue	146,045	146,684	146,542
OPERATING EXPENSES			
Cost of revenue total	86,408	85,906	82,038
Selling, general and admin. expenses, total	7,494	6,689	6,842
Depreciation/amortization	--	--	--
Unusual expense(income)	--	--	--
Other operating expenses, total	35,143	35,897	36,841
Total operating expense	129,045	128,492	125,721
Operating income	26,267	18,192	20,821
Other, net	--	--	--
INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS			
Net income before taxes	16,151	17,381	20,159
Provision for income taxes	676	2,534	5,745
Net income after taxes	15,475	14,847	14,414



Fiscal data as of Dec 31 2013	2013	2012	2011
Minority interest	(298)	(223)	(292)
Net income before extra. Items	15,177	14,624	14,122
Total extraordinary items	(2,120)	(983)	29
Net income	14,055	13,641	14,151
Inc.avail. to common excl. extra. Items	15,160	14,605	13,069
Inc.avail. to common incl. extra. Items	13,040	13,622	13,098
EPS RECONCILIATION			
Basic/primary weighted average shares	10,222	10,523	10,591
Basic/primary eps excl. extra items	1.48	1.39	1.23
Basic/primary eps incl. extra items	1.28	1.29	1.24
Dilution adjustment	(12)	0	0
Diluted weighted average shares	10,289	10,564	10,620
Diluted eps excl. extra items	1.47	1.38	1.23
Diluted eps incl. extra items	1.27	1.29	1.23
COMMON STOCK DIVIDENDS			
DPS - common stock primary issue	0.76	0.68	0.58
Gross dividend - common stock	8,060	7,372	7,498
PRO FORMA INCOME			
Pro forma net income	--	--	--
Interest expense, supplemental	849	811	662
SUPPLEMENTAL INCOME			
Depreciation, supplemental	9,762	9,192	8,986
Total special items	--	--	--
NORMALIZED INCOME			
Normalized income before taxes	16,151	17,381	20,159
Effect of special items on income taxes	--	--	--
Income tax excluding impact of special items	676	2,534	5,745
Normalized income after tax	15,475	14,847	14,414
Normalized income avail. to common	15,160	14,605	13,069
Basic normalized EPS	1.48	1.39	1.23
Diluted normalized EPS	1.47	1.38	1.23



Appendix 2. Company Balance Sheets

Fiscal data as of Dec 31 2013	2013	2012	2011
ASSETS			
Cash And Short Term Investments	88,555	77,268	84,501
Total Receivables, Net	21,388	285,004	307,957
Total Inventory	17,325	15,374	13,792
Prepaid expenses	--	--	--
Other current assets, total	--	--	--
Total current assets	--	--	--
Property, plant & equipment, net	68,827	68,633	65,739
Goodwill, net	77,648	73,114	72,625
Intangibles, net	14,310	11,980	12,068
Long term investments	43,981	48,510	91,426
Note receivable - long term	251,054	--	--
Other long term assets	--	--	--
Total assets	656,560	684,999	718,189
LIABILITIES			
Accounts payable	16,471	15,654	16,400
Accrued expenses	--	--	--
Notes payable/short-term debt	38,605	52,060	137,611
Current portion long-term debt/capital leases	39,285	49,332	--
Other current liabilities, total	2,220	1,980	1,797
Total current liabilities	--	--	--
Total long term debt	305,150	312,407	315,832
Total debt	383,040	413,799	453,443
Deferred income tax	--	--	(131)
Minority interest	6,217	5,444	1,696
Other liabilities, total	118,046	125,096	128,546
Total liabilities	525,994	561,973	601,751
SHAREHOLDERS EQUITY			
Common stock	702	702	702
Additional paid-in capital	--	--	--
Retained earnings (accumulated deficit)	149,051	144,055	137,786



Fiscal data as of Dec 31 2013	2013	2012	2011
Treasury stock - common	(42,561)	(34,571)	(31,769)
Unrealized gain (loss)	307	677	(30)
Other equity, total	23,067	12,163	9,749
Total equity	130,566	123,026	116,438
Total liabilities & shareholders' equity	656,560	684,999	718,189
Total common shares outstanding	10,061	10,406	10,573
Treasury shares - common primary issue	1,633	1,288	1,121

Appendix 3. Company Quarterly Statements

Period Ending	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
Total Revenue	40,187,000	35,725,000	35,123,000	35,010,000
Cost of Revenue	22,534,000	20,129,000	19,175,000	17,979,000
Gross Profit	17,653,000	15,596,000	15,948,000	17,031,000
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	9,069,000	8,705,000	8,573,000	8,796,000
Non Recurring	1,480,000	821,000	1,029,000	1,488,000
Others	-	-	-	-
Total Operating Expenses	-	-	-	-
Operating Income or Loss	7,104,000	6,070,000	6,346,000	6,747,000
Income from Continuing Operations				
Total Other Income/Expenses Net	-	-	-	-
Earnings Before Interest And Taxes	7,104,000	6,070,000	6,346,000	6,747,000
Interest Expense	2,416,000	2,462,000	2,617,000	2,621,000
Income Before Tax	4,688,000	3,608,000	3,729,000	4,126,000
Income Tax Expense	(483,000)	345,000	308,000	506,000
Minority Interest	(158,000)	10,000	(166,000)	16,000
Net Income From Continuing Ops	5,171,000	3,263,000	3,421,000	3,620,000
Non-recurring Events				
Discontinued Operations	(1,807,000)	(82,000)	(122,000)	(109,000)
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	3,206,000	3,191,000	3,133,000	3,527,000
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	3,206,000	3,191,000	3,133,000	3,527,000



Appendix 4. Competitor #1 Income Statements

Fiscal data as of Sep 30 2013	2013	2012	2011
REVENUE AND GROSS PROFIT			
Total revenue	75,882	77,395	73,275
OPERATING EXPENSES			
Cost of revenue total	55,053	55,470	51,046
Selling, general and admin. expenses, total	11,286	11,043	10,239
Depreciation/amortization	--	--	--
Unusual expense(income)	(297)	(126)	(162)
Other operating expenses, total	152	48	36
Total operating expense	70,485	70,680	65,058
Operating income	5,397	6,715	8,217
Other, net	(366)	(410)	(204)
INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS			
Net income before taxes	5,843	6,636	9,608
Provision for income taxes	1,630	1,994	2,232
Net income after taxes	4,213	4,642	7,376
Minority interest	(126)	(132)	(176)
Net income before extra. Items	4,087	4,510	7,200
Total extraordinary items	197	(360)	(1,055)
Net income	4,284	4,150	6,145
Inc.avail. to common excl. extra. Items	4,087	4,511	7,200
Inc.avail. to common incl. extra. Items	4,284	4,151	6,145
EPS RECONCILIATION			
Basic/primary weighted average shares	844	876	873
Basic/primary eps excl. extra items	4.84	5.15	8.25
Basic/primary eps incl. extra items	5.08	4.74	7.04
Dilution adjustment	0	0	--
Diluted weighted average shares	852	884	883
Diluted eps excl. extra items	4.80	5.10	8.16
Diluted eps incl. extra items	5.03	4.69	6.96
COMMON STOCK DIVIDENDS			
DPS - common stock primary issue	2.87	2.87	3.00



Fiscal data as of Sep 30 2013	2013	2012	2011
Gross dividend - common stock	2,534	2,528	2,629
PRO FORMA INCOME			
Pro forma net income	--	--	--
Interest expense, supplemental	493	450	493
SUPPLEMENTAL INCOME			
Depreciation, supplemental	1,751	2,818	1,667
Total special items	(50)	42	(1,183)
NORMALIZED INCOME			
Normalized income before taxes	5,793	6,678	8,425
Effect of special items on income taxes	(14)	13	(275)
Income tax excluding impact of special items	1,616	2,007	1,957
Normalized income after tax	4,177	4,671	6,468
Normalized income avail. to common	4,051	4,540	6,292
Basic normalized EPS	4.80	5.18	7.21
Diluted normalized EPS	4.75	5.13	7.13

Appendix 5. Competitor #2 Income Statements

All numbers in thousands

Period Ending	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011
Total Revenue	32,146,000	24,780,000	27,251,000
Cost of Revenue	18,797,000	19,072,000	16,528,000
Gross Profit	13,350,000	11,854,000	10,723,000
Operating Expenses			
Research Development	2,388,000	2,414,000	2,084,000
Selling General and Administrative	8,180,000	8,585,000	7,502,000
Non Recurring	39,000	-	1,759,000
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	2,744,000	1,030,000	(622,000)



	Income from Continuing Operations			
	Total Other Income/Expenses Net	96,000	140,000	147,000
	Earnings Before Interest And Taxes	2,840,000	995,000	(476,000)
	Interest Expense	551,000	574,000	576,000
	Income Before Tax	2,289,000	421,000	(1,052,000)
	Income Tax Expense	642,000	244,000	326,000
	Minority Interest	-	-	-
	Net Income From Continuing Ops	1,612,000	(102,000)	(1,358,000)
	Non-recurring Events			
	Discontinued Operations	3,000	62,000	(532,000)
	Extraordinary Items	-	-	-
	Effect Of Accounting Changes	-	-	-
	Other Items	-	-	-
	Net Income	1,615,000	(40,000)	(1,890,000)
	Preferred Stock And Other Adjustments	-	-	-
	Net Income Applicable To Common Shares	1,615,000	(40,000)	(1,890,000)