



STRATEGIC FINANCIAL ANALYSIS

HUSQVARNA

ABSTRACT

The study is concerned with analyzing the financial performance of Husqvarna for the past five years to identify the key strengths and weakness in its financial performance.



Strategic Financial Analysis

EssayCorp

5 years
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Introduction:

Financial analysis forms the basis for financial decision making. Financial analysis refers to the application of different financial tools and techniques to identify the strength and weak areas in the financial statements of a company. The effectiveness of financial decisions is considered to be dependent on the accuracy of financial analysis. The current study is concerned with conducting financial analysis on the financial performance of Husqvarna group over the past five years. Last five years' annual report of the company have been taken for this purpose. The study analyzes both the income statement and balance sheet of Husqvarna group. Ratio analysis and du-point analysis have been considered for this purpose.



Analysis of Income statement of Husqvarna group:

The financial statements of an organization comprises of three main elements which are income statement, balance sheet and cash flow statement (Doucette et al. 2012). The purpose of income statement is to reflect the incomes and payments that have taken place during a particular financial period. Here, it is vital to note that income statement reveals profits or loss for an organization during a period. Earnings per Share (EPS) is calculated on the basis of the results of the Income statement. However, there exists a significant difference between income statement and cash flow statement preparation methods. Income statement or Profit and loss account is prepared following accrual basis of accounting whereas cash basis of accounting is followed in case of cash flow statements (El Kasmioui and Ceulemans, 2013).

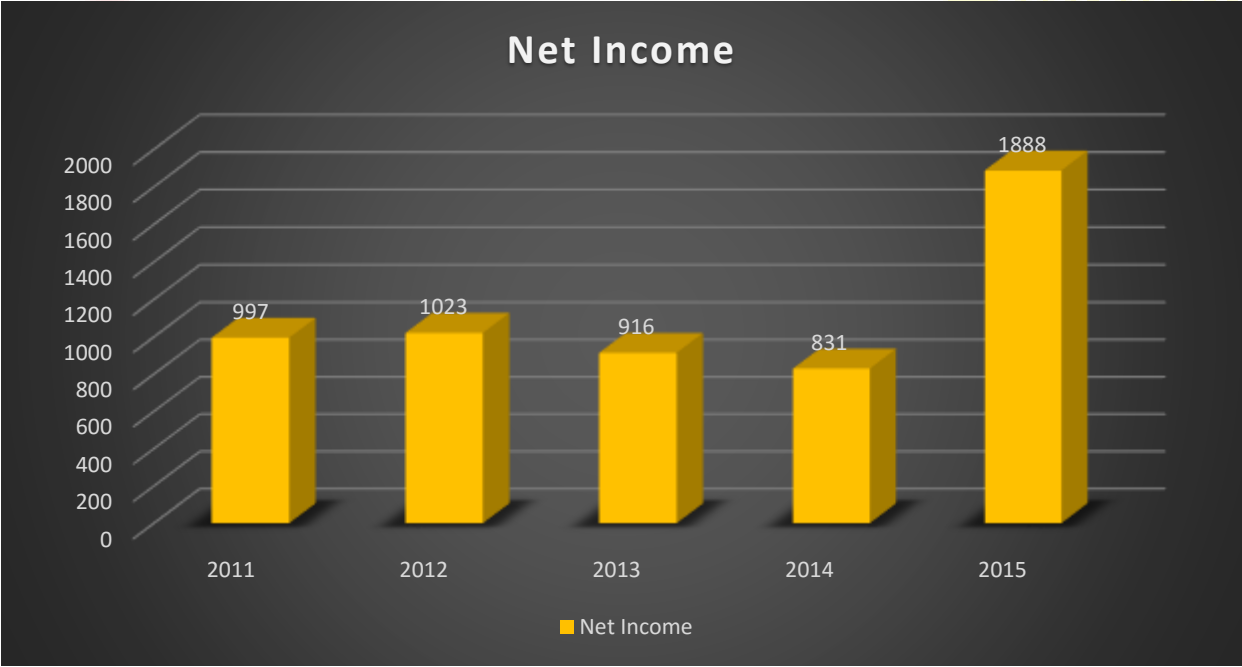


The analysis on the income statement of Husqvarna group is presented below:

Husqvarna group							
Comparative Financial Analysis - Income Statement							
SL	Item	2011	2012	2013	2014	2015	Tre nd
		Amou nt	Amou nt	Amou nt	Amou nt	Amou nt	
1	Net Sales	30,357 .00	30,834 .00	30,307 .00	32,838 .00	36,170 .00	-
2	Increase / Decrease	-	1.57	(1.71)	8.35	10.15	18.3 6
3	Cost of goods sold	21,948 .00	22,543 .00	22,288 .00	23,478 .00	25,996 .00	-
4	Increase / Decrease	-	2.71	(1.13)	5.34	10.72	17.6 4

5	Gross income	8,409.	8,291.	8,019.	9,360.	10,174	-
		00	00	00	00	.00	
6	Increase / Decrease	-	(1.40)	(3.28)	16.72	8.70	20.7
							4
7	Selling expenses	5,332.	5,223.	5,148.	5,626.	5,833.	-
		00	00	00	00	00	
8	Increase / Decrease	-	(2.04)	(1.44)	9.29	3.68	9.48
9	Administration expenses	1,530.	1,461.	1,260.	1,392.	1,532.	-
		00	00	00	00	00	
10	Increase / Decrease	-	(4.51)	(13.76	10.48	10.06	2.27
)			
11	Other operating income	9.00	10.00	2.00	18.00	23.00	-
12	Increase / Decrease	-	0.11	(0.80)	8.00	0.28	7.59
13	Other operating expenses	5.00	2.00	5.00	2.00	5.00	-
14	Increase / Decrease	-	(60.00	150.00	(60.00	150.00	180.
))		00
15	Impairment of goodwill	-	-	767.00	-	-	-
16	Increase / Decrease	-	-	-	-	-	-
17	Shares of income in associated companies	-	-	-	-	-	-
18	Operating income	1,551.	1,615.	1,608.	1,591.	2,827.	-
		00	00	00	00	00	
19	Increase / Decrease	-	4.13	(0.43)	(1.06)	77.69	80.3
							2
20	Financial income	28.00	18.00	25.00	76.00	44.00	-
21	Increase / Decrease	-	(35.71	38.89	204.00	(42.11	165.
))	07
22	Financial costs	432.00	464.00	453.00	401.00	388.00	-
23	Increase / Decrease	-	7.41	(2.37)	(11.48	(3.24)	(9.6
)		8)

24	Income after adjusting financial items	1,147.00	1,169.00	1,180.00	1,266.00	2,483.00	-
25	Increase / Decrease	-	1.92	0.94	7.29	96.13	106.28
26	Income tax	150.00	146.00	264.00	435.00	595.00	-
27	Increase / Decrease	-	(0.03)	0.81	0.65	0.37	1.80
28	Income for the period	997.00	1,023.00	916.00	831.00	1,888.00	-
29	Increase / Decrease	-	2.61	(10.46)	(9.28)	127.20	110.07
30	Earnings per Share (EPS)	1.73	1.78	1.60	1.44	3.28	-
31	Number of shares	572.60	572.60	572.80	573.10	574.20	-



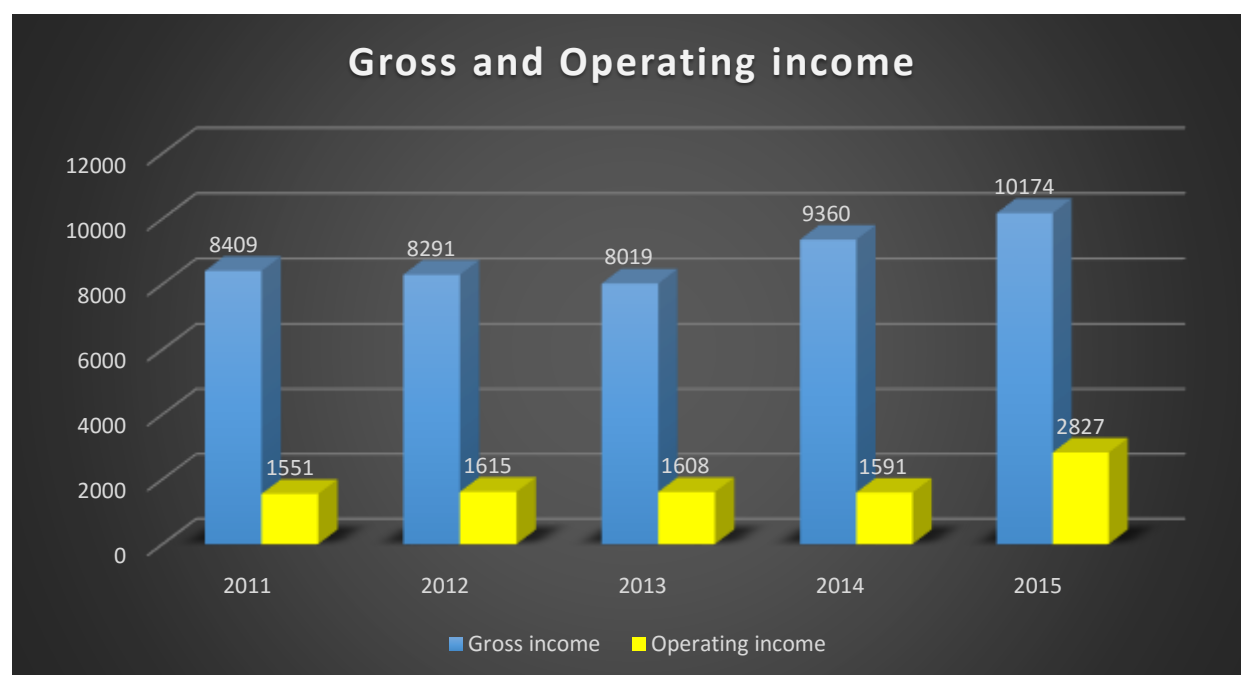
Interpretation:

Understanding profitability is the key objective of analyzing profit and loss statement of Husqvarna group. Profitability is the excess of revenues over the expenses incurred by a company for earning such revenues.



Overall, instability in profitability is indicated by the above analysis on the financial statement of Husqvarna group. The company has been able to increase its sales revenues consistently over the last past years except in the year 2013. On the other hand, Gross profit margin has been negative for both 2012 & 2013 and then became positive in 2014 and again the growth in gross profit margin dipped in 2015. This can be mainly attributed to the sharp rise in direct costs of the company. Furthermore, consistent rise in indirect costs of Husqvarna group is yet another key issue faced by the company. The operating profit margin of the company has remained for both 2013 and 2014 and then became positive in 2015. On the other hand, significant increase in net profit is observed in 2015 whereas negative growth of net profit margin is observed in 2013 and 2014. Husqvarna group has been able to control the income tax expense in 2015 compared to the previous years. However, a good point to notice is that Husqvarna group has been able to reduce its finance costs consistently since 2011. As mentioned by Cucchiella, D'Adamo and Gastaldi (2015), reduction in

finance cost in the form of interest expense reduces the financial risk of a company and improves profitability.



Analysis of Balance Sheet of Husqvarna group:

Balance Sheet is one of the major financial statements which reveals the financial position of an organization. The main figures indicated by Balance Sheet are assets, liabilities and equities (Zhuang and Luo, 2015). Liquidity and gearing are the most vital aspects related to financial position that are indicated by a Balance Sheet.

An analysis of the Balance Sheet of Husqvarna group is presented below:

Husqvarna group						
Comparative Financial Analysis - Balance Sheet						
SL	Item	2011	2012	2013	2014	2015
		Amount	Amount	Amount	Amount	Amount
1	Total assets	29,103.0	28,024.0	26,762.0	29,344.0	29,669.0
		0	0	0	0	0
2	Current assets	13,895.0	13,601.0	12,395.0	13,673.0	13,920.0
		0	0	0	0	0

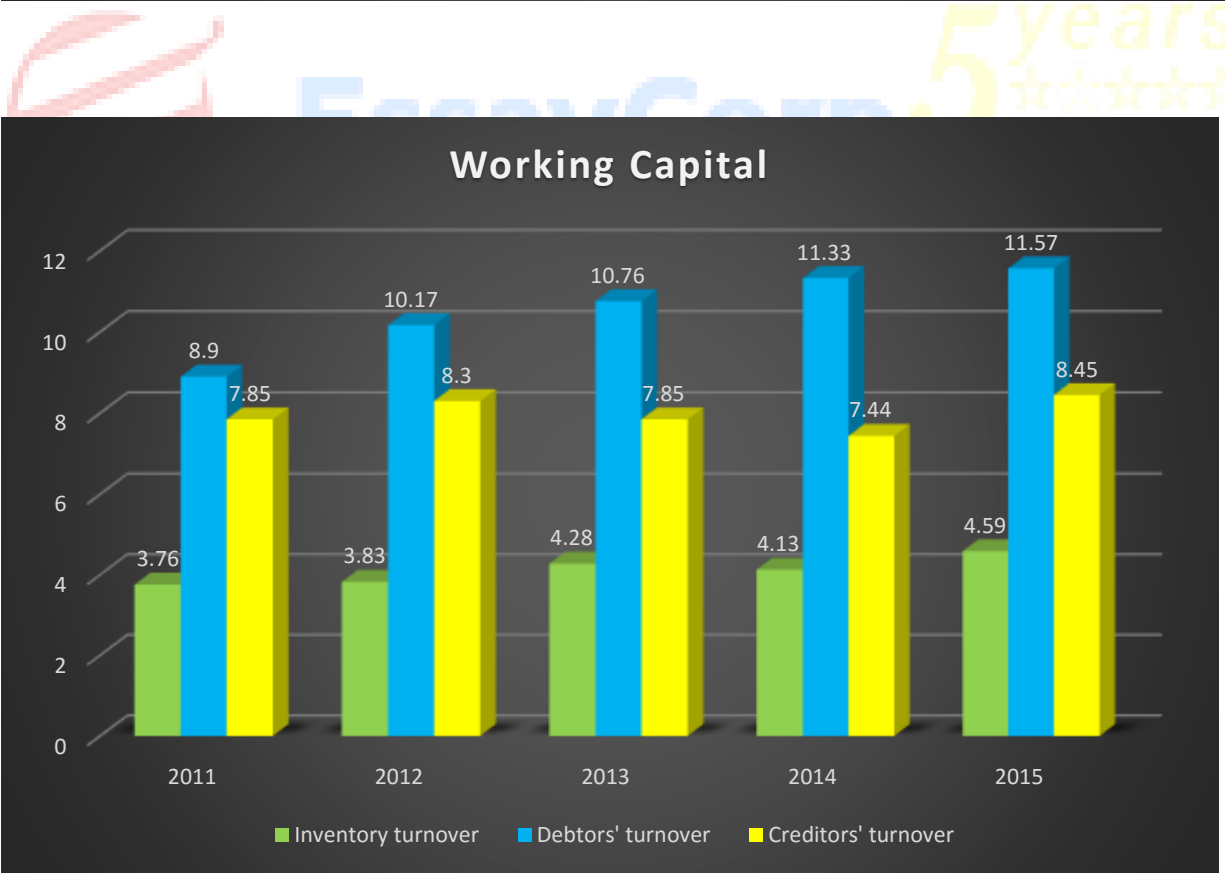
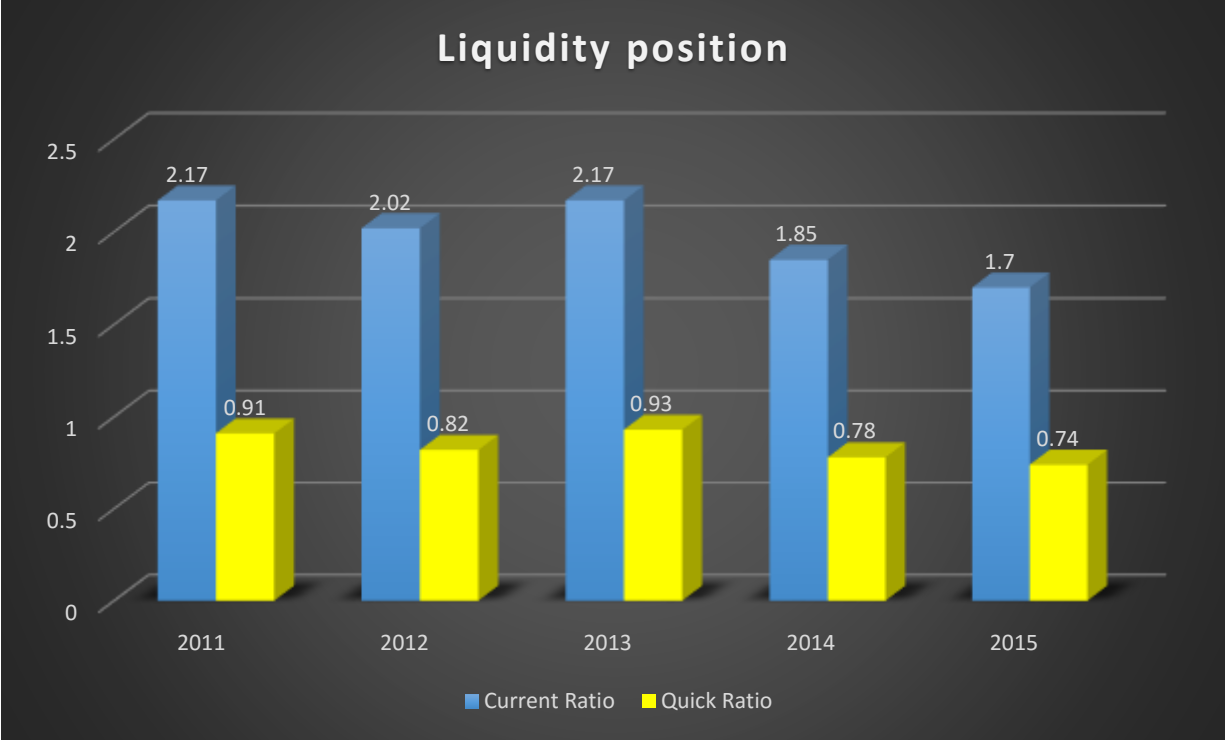
4	Current liabilities	6,409.00	6,748.00	5,699.00	7,371.00	8,179.00
5	Inventories	8,078.00	8,058.00	7,087.00	7,954.00	7,874.00
6	Receivables	3,660.00	3,032.00	2,816.00	2,898.00	3,126.00
7	Payables	2,797.00	2,716.00	2,838.00	3,154.00	3,077.00
8	Equity	12,388.0	11,585.0	11,390.0	12,170.0	13,061.0
		0	0	0	0	0
9	Sales	30,357.0	30,834.0	30,307.0	32,838.0	36,170.0
		0	0	0	0	0
10	Cost of goods sold	21,948.0	22,543.0	22,288.0	23,478.0	25,996.0
		0	0	0	0	0
11	Net Profit	997.00	1,023.00	916.00	831.00	1,888.00
12	EBIT	1,551.00	1,615.00	1,608.00	1,591.00	2,827.00
13	Capital employed	22,694.0	21,276.0	21,063.0	21,973.0	21,490.0
		0	0	0	0	0
14	Current ratio	2.17	2.02	2.17	1.85	1.70
15	Quick ratio	0.91	0.82	0.93	0.78	0.74
16	Inventory Turnover ratio	3.76	3.83	4.28	4.13	4.59
17	Debtors receivable period	8.29	10.17	10.76	11.33	11.57
18	Creditors payables period	7.85	8.30	7.85	7.44	8.45
19	ROCE	6.83	7.59	7.63	7.24	13.15

Interpretation:

Husqvarna group is suffering from weak liquidity position as indicated by the above analysis. Degree of liquidity indicates how quicker current assets can be converted into cash. Usually, a higher liquidity ratio is preferred by creditors and suppliers. The current ratio of Husqvarna group has fallen sharply in 2012, 2014 and 2015. Quick ratio which is a more stringent measure of a company's liquidity has also been volatile and below 1 for the last five years.



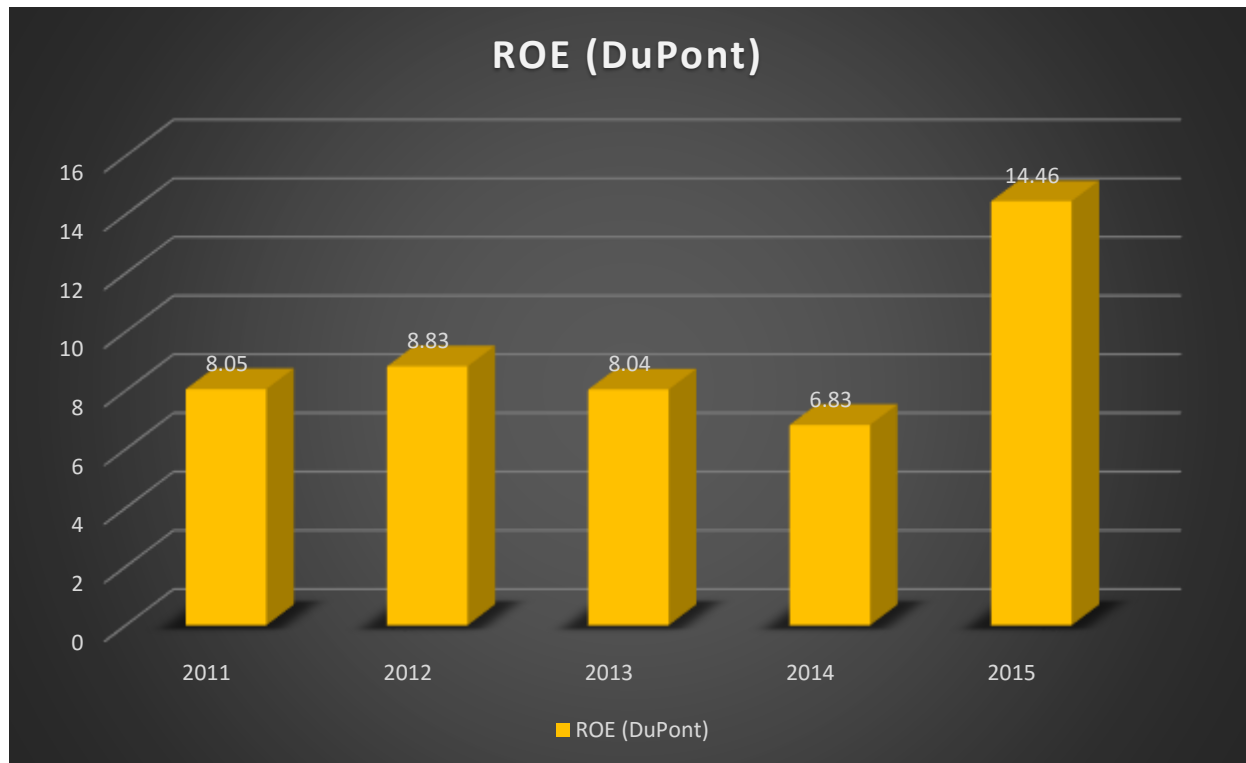
On the other hand, inventory turnover ratio for Husqvarna group has increased consistently in the preceding five years. This indicates strong sales by the company. Debtors' turnover ratio has also increased continuously over the last five years. This is a good indicator of the financial position of the company as a high debtors' turnover ratio indicates that it is taking less time for the company to collect its debts from credit sales. As regard to the creditors' payable period, it has been highest in 2012 and 2015 whereas the ratio is lowest in 2014. A high creditors' turnover ratio indicates that the company is taking less time to pay-off the creditors and vice-versa. The ROCE calculated in the above table has increased from 2011 to 2013 and then has marginally decreased in 2014 however the same has again increased in 2015.



DU Pont analysis of Husqvarna group:

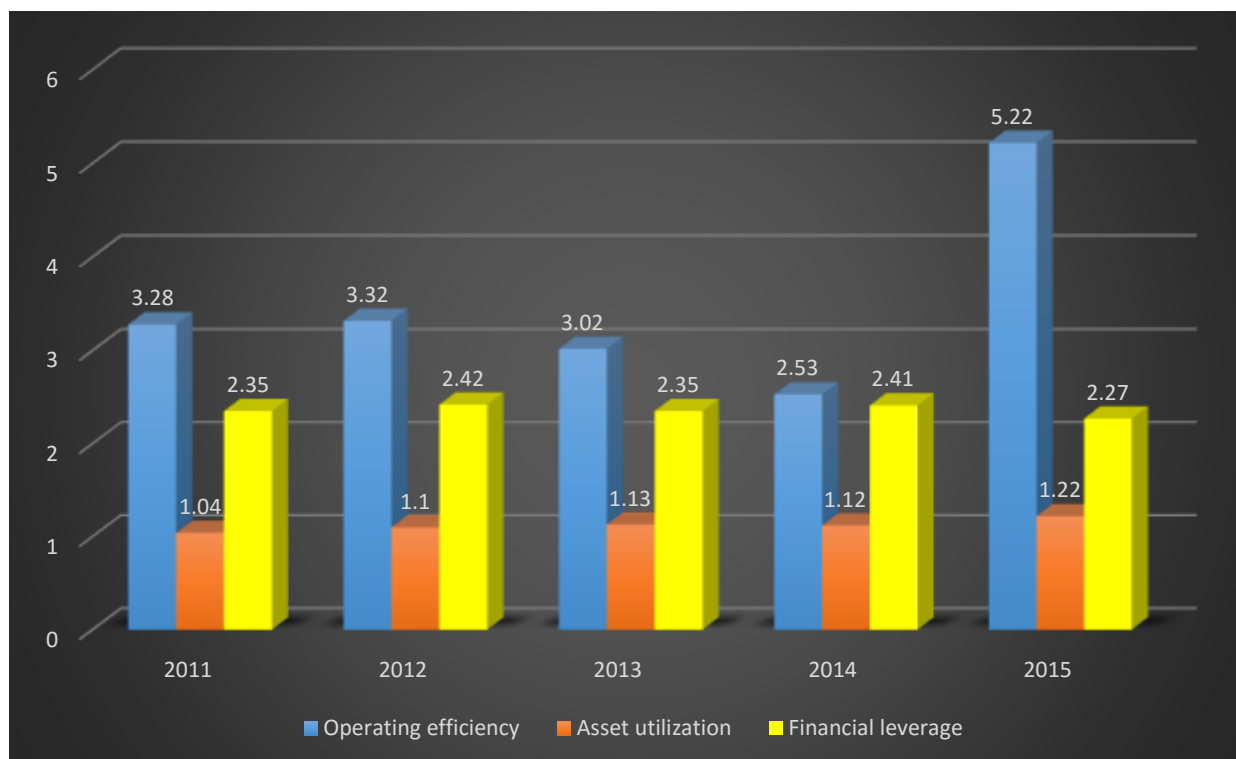
The DuPont analysis method was first used by the DuPont Corporation in 1920s. Under this approach the value of assets of an organization are measured at the book value instead of net book value which results in a higher Return on Equity (ROE). This is termed as DuPont identity. DuPont analysis is based on three main elements namely operating efficiency, asset utilization and financial leverage. In this context, Palea and Maino (2013) stated that measuring value of assets at gross book value instead of net book value eliminates incentive for avoiding investment in new assets. Here, it is important to note that new asset avoidance takes place because of financial accounting depreciation which generates lower ROEs in an artificial manner in the initial phase during which an asset is procured and started for use in the business. On the other hand, Peters (2009) observed that DuPont analysis is useful in identifying underperforming element of the business in case the ROE is poor.

Husqvarna group						
DU Point Analysis						
SL	Item	2011	2012	2013	2014	2015
		Amount	Amount	Amount	Amount	Amount
1	Net Profit	997.00	1,023.00	916.00	831.00	1,888.00
2	Sales	30,357.00	30,834.0	30,307.0	32,838.0	36,170.0
			0	0	0	0
3	Total Assets	29,103.00	28,024.0	26,762.0	29,344.0	29,669.0
			0	0	0	0
4	Equity	12,388.00	11,585.0	11,390.0	12,170.0	13,061.0
			0	0	0	0
5	Operating efficiency	3.28	3.32	3.02	2.53	5.22
6	Asset utilization efficiency	1.04	1.10	1.13	1.12	1.22
7	Financial leverage	2.35	2.42	2.35	2.41	2.27
8	Return on Equity (ROE)	8.05	8.83	8.04	6.83	14.46



Interpretation:

Instability in the ROE is indicated by the DuPont analysis conducted above. It is observed that the company has been increase ROE in 2012 compared to 2011 however the same has decreased consistently for next two years 2013 and 2014. ROE again got increased in 2015. It is further observed that Husqvarna group has been able to maintain a lower cost of goods sold in the years 2012 and 2015 indicated by the high net profit margin of the company. On the other hand, Husqvarna group has been successful in turning over the products more efficiently which is indicated by the consistent rise in the asset utilization ratio through the same got a bit decreased in 2014. Furthermore, there has not been any significant increase in the gearing position or financial leverage of the company during the last five years.



Key Accounting practices of Husqvarna group:

It is a practice of Husqvarna group to value plant & machinery at the historical cost less accumulated depreciation considering for any adjustment for impairment charges. As regard to goodwill and other assets which do not have any specific life period and are not ready for use are usually subject to amortization however these assets are tested on an annual basis for any impairment.

Product development expense is a common cost incurred by Husqvarna group. The company capitalizes certain specific product development expenditures. However, capitalization of such expenditure is usually done only if future economic benefits expected from the assets are certain. On the other hand, examples of assets which are included in the list of intangible assets by Husqvarna group are patents, licenses, software and customer relations. Inventory is a key financial item for Husqvarna group. The company values all inventories and work-in-progress based on net realizable value or cost whichever is lower whereas the value of inventories is determined by using weighted average cost formula.

The tax expense shown in the financial statements for any particular period includes both current and deferred tax. It is a practice of Husqvarna group to calculate current tax on the basis of taxable results for the year whereas deferred tax is calculated in accordance to the liability method.

Furthermore, Husqvarna group recognizes interest income on the basis of time-proportion through the application of effective interest method. On the other hand, recognition of dividends is made when it is confirmed that the payments are sure to be received.

As regard to the cash flow statement of Husqvarna group, it has been prepared following the indirect method.



Reference list:

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Appendix – I

SL	Financial ratios	Formula
1	Gross profit margin	Gross Profit / Sales * 100
2	Operating profit margin	Operating Profit / Sales * 100
3	Net profit margin	Net Profit / Sales * 100
4	Current Ratio	Current Assets / Current Liabilities
5	Quick Ratio	(Current Assets – Inventories) / Current Liabilities
6	Inventory Turnover	Sales / Inventory
7	Debtors' Turnover	Credit sales / Debtors
8	Creditors' Turnover	Credit purchase / Creditors
9	ROCE	Net Profit / Capital employed ** where Capital employed = Total assets – Current liabilities
10	DuPont	Operating efficiency * Asset utilization rate * Equity multiplier
11	EBIT	Net Profit + Tax expense + Interest costs