A Study of Multinational Financial Policies: Case of Adidas Group

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Abstract:
The Multinational Company Adidas is a globally known brand name which is considered to be a strong retail producer for sports shoes, clothing and accessories. The designing and manufacturing of the product is at the base operations in Germany. With sports footwear on the portfolio of products, company is also a known producer of sports accessories like bags, shirts, time-wear, eye wear and other sports-wear goods. Adidas is now not only the largest producer and designer of sportswear goods in Germany and Europe, but is also acknowledged as the second most prevalent sportswear manufacturer and designer globally with Nike leading from the front. The paper discusses the financial analysis, profitability Ratio, Liquidity Ratios, and the Debit Ratios of Adidas group.
Keywords: Payment, Economies, Company, Financial, Inventory.

Introduction

Evaluating the company's balance sheets it becomes visible that the quantum of liquid assets and cash that the company held has increased by around 87% in 2012. The inventory inflated by almost 11% which was subdued by the strategic intent in the new business segment. The entrance in the newer markets required that the company invested a substantial portion of the funds in property and plant development that translated in the asset side of the company. Simultaneously, the liability side saw an increase of over 150% in the current long term debt as one of the long term debt matured hence reducing the portion of payments. This reduced the long term debt position of the company by 27%. The growth perspective continued with income being retained by the company growing at around 16% in 2013.

The Adidas Group's income statement analysis indents that the net revenues increased by over 13% post 2012 with emancipating business in the new segments. The company's anticipated reduced cost of production reflected in the growth in the gross profit but in order to continue to deepen its footing in the market, the company's selling and general costs increased by around 17%. The business intent translated into an over 36% operating profits growth and a growth of over 57.6% in net income in the current period.

Financial Analysis:

The financial ratio analysis indicates differing variables as against the market fundamentals and the expectations set as benchmark by the competition and setting the way forward. Therefore, when evaluating the business performance of an organization it is imperative that not only the fundamental basics of the financials are reviewed but the business direction is also reviewed indicating alignment with the changing market dynamics.

When evaluating the financial statements of Adidas Group, an interesting inclination over the last 2 year period is evident. Even though the global financial and economic melt-down haywire is settling in, the company has been able to attain its benchmark performance. Although large corporate continued to stumble and even greater economies continued to falter, the organization has continued to deliver commendably on the key financial parameters. (Mee, 1983)

The net sales increased by over 13% in 2012 with entrance into newer economies by the company. The growth potential in the growing economies opened opportunities for the company to deliver beyond targets and capitalize on the potential of the market. Although the market viewed entrance into the developing economies as risky but with the potential identified Adidas Group has been able to build a synergy between the market potential and the business performance. Concurrently, the organization, as required, increased the operating expenses in order to ensure that the business strategies in new dimensions were met driving down the net income 12% in the first year. The challenge of addressing the business cost was covered by the fact that the company's net revenues increased by less than 2% in 2013 but saw a 57% increase in net income. These were a result of the financial strategies set for the developing markets.

Profitability Ratios:
Organization's profitability is the strength and sustenance of the organization with which it builds its future potential. This is a result of the financial tenacity to generate revenues and induce growth in the net profitability of the company. Hence, for the management it is integral that the direction of strategy set is translated into the financial figures of the company.

Gross Margin Ratio:

This identifies how coherently is the organization able to generate revenues keeping in control the product costs. Financial figures for Adidas Group reveal that the product management and manufacturing control has increased over the period with the gross profit ratio growing from slight over the 47.5% to over 49.2% in 2013. This will ensure that the company can expand its business arena and funds being available for market penetration. (Donald, 1987)

Operating Margin Ratio:

This allows the organization to increase the volumetric piece of sales and induce customer behavior towards spending and penetrate in lieu to the competition. Adidas Group saw a surge in the operating profit in 2013 by over 36% after seeing a slight dip by 2% in 2013. The operating margin reduced by almost 1% in 2012 which regained momentum as the market's intent into newer markets and product diversification initiated increasing the operating profit margin to rise to 8.3%.

Net Margin:

The company's intent and strategic drive translates into the net profitability and builds the expectations of its stakeholders. The changing market dynamics and the play of the competition build upon the bottom line and set the trend for business growth and future expectations. The strategic intent from Adidas Group's leadership in net income reveals that the company experienced a substantial decline in 2012 to 3.5%. This decline in net income has been a result of the company's wings expanding into developing markets. Nevertheless, the company's net income recovered substantially to over 5.4% in 2013 showing an increase of over 57.6% year on year. (Casson, 1979)

Return on Equity:

It is important to understand diversify the risk and returns and meanwhile ensure that the investment has potential to deliver on the expected returns. When reviewing the fundamental return on equity for Adidas Group the figures reveal that the company's return on equity took a down turn from double digits to 9.9% in 2012. This was because most of the capital outflow was being directed into investments into newer markets. Although the visible dip in the return on equity was there, the stockholders identified that the company had greater potential to deliver which delved into the net profitability of the organization reverting the return on equity to cross the 14% mark in 2013. (Adidas Financial Analysis, 2014)

Return on Assets:

The return on assets indicates how well strategically is the organization functioning and utilizing of the assets. Looking into Adidas Group's financial figures, the above reasoning is visible. Adidas's return on assets dropped to 4.5% in 2012, but shot back to almost the 7% parameter in the current year post the deliverance of the assets built by the company in the developing markets.

Return on Investments Ratio:

This indicates the risk capacity of the investor is connected with their intent of expected returns and the translation of these intents into the expected returns. When assessing the company's financial deliverance, it is apparent that Adidas's return on investment of shareholders gained momentum growing to well over 12.8% highlighting the alignment with the shareholder's prospects. (Hahlo , 1973) This growth has been largely driven from the increase in revenues as Adidas expanded its footings into newer markets.

Return on Common Equity:

The return on common stocks is generally driven from the performance of the stock market and the performance in comparison to the competitors in the market. Evaluating the performance of Adidas Group, the financial figures reveal that although the market since the global economic slowdown remained in a consolidation state, Adidas Group has been able to deliver well beyond its competitors and beating the stakeholder expectations with double digit returns. Although the company saw a decline in 2012 with the return going below 10% but has been able to jump back to returns from the market above 14% in the most recent period. This is an important variable which has to be looked into in order to ensure that the company has positive vibes in the market and continues to prosper and deliver at the stakeholder level.

Debt to Equity Ratio:

This indicates that the organization has the potential to pay off the demanded funds of the stakeholders in a situation where the organization is short of funds. Reviewing the Group's financial stance in terms of leveraged funds, the financials appear to be substantially strong with the debt to equity ratio being greater than 1.This provides the stakeholders with the belief that the organization has cash flows available to offset the short and long term liabilities asked from the company. The ratio moved slightly up in 2012 to over 1.20X but dipped sharply in the current period reaching 1.11X. This has been primarily driven from the fact that the company has created a mobile growth by entering into newer markets. This will remain integral for the company to coherently maintain the ratio above 1X to ensure that the payoffs do not utilize the invested capital of the stakeholders. (McCrary, 2010)

Times Interest Earned:

This ensures for the company that risk is minimized and the funds are invested in sources with greater returns. Generally, the invested rate is greater than the organization's required rate of return. Borrowing the funds from the market will mean that the company will be able to invest the stakeholder's capital into higher return investments and hence diversifying the business portfolio. The financial review analysis of Adidas Group shows that the income section continued to increase over the period and this growth continued to outclass the interest expense. The company's interest expense continued to decrease with the ratio going up to 13X in the current period indicating that the company's use of funds has been strategic with the interest expense going down.

Liquidity Ratios:

The liquidity of an organization is primarily the management's intent in maintaining business continuity and maintaining the level of performance within the organization. The amount of liquidity an organization is required to maintain cannot be ascertained, but depends upon the level of business quantum. Maintaining the right level of liquidity means that the company's funds are available for working capital and short term liabilities. (Longinidis, P., & Georgiadis, 2011) When the organization maintains the right level of liquidity it is able to ensure that the company has efficient resources for strong financial decisions. Although companies tend to perform commendably on the financial bottom line but may face severe liquidity challenges. This is because the company may be carrying out business in credit terms and may be facing challenges in receiving the funds. The company has to ensure that the required funds for working capital are always available so that the business operations can continue.

Working Capital:

The working capital is primarily the net off current assets off current liabilities. Positive figures indicate that the company has enough cash to furnish the short term needs of the company. When evaluating the financial performance of Adidas Group, the liquidity position of the organization presents a positive outlook. This has been because with time and capital invested into newer segments the company has been able to capitalize its credit sales into receivables and cash. However, Adidas will have to ensure that the company does not have excess cash which is idle and is not earning revenues for the company.

Current Ratio:

The ratio of a company to be able to offset its current liabilities from its current assets highlights how many times the company will be able to payback. The greater the ratio means that the company has greater liquidity. A ratio of greater than 1X means that the company has enough liquid assets to pay off the current liabilities. When evaluating the financial ratio of Adidas Group the company's liquidity position increased to over 157% in 2012, but took a slight dip in the current period to 145%. This is primarily because the company's intent of expanding the business in newer segments meant that the company's payables have increased by over 7%. Concurrently, the company's current portion of the debt increased substantially. (Adidas Financial Analysis, 2014)

Acid Test Ratio:

Generally organizations are known to maintain liquidity with the assets of the company, but this tends to add up with the inventory of the company. The prepaid assets and the inventory are generally the slower moving assets of the lot. Hence, in order to evaluate the actual cash in hand of the company, the prepaid assets and the inventories are not accounted for in the liquid assets. Adidas Group's financial ratios indicate that the company's liquidity position which stood at slightly over the 100% mark in 2012 saw a decline to 89% in 2013. (Akins, 1980) This was primarily because the company's cash investments into newer segments required inventory buildup and this increase in inventory has decreased the liquidity position of the company. This increase of over 11% in the inventory indicates that the expectation of the management from the market is high, but it has to be ensured that the inventory build up does not actually hurt the liquidity position of the company.

Cash Ratio:

Cash ratio denotes the availability of cash with the company and the liquidity situation that will actually allow the organization to conduct daily business activities within the organization. Concurrently, this has to be ensured by the company that it does not lose out an opportunity for revenue generation by keeping an excess amount of cash within the organization. The cash assets are primarily liquid funds to meet the abrupt situation needs of the company. (Curzon, 1977) The cash ratio of Adidas Group set at over 38% in 2012 dipped to 33.5% in the current period. This was because the organization to invest funds and create working capital in the newer segments. However, the ratio still seems to be substantially high because although the company's current ratio indicates that the company can offset the current liabilities, but the cash can be invested into revenue generating streams bringing in an opportunity for further expansion and access to growth in the market.

Inventory Turnover Ratio & Days:

The inventory of organizations which has manufacturing functions what their cash to be consistently moving and want their inventory to be consistently moving in the consumer market. Hence, in a situation where the inventory is in stock for a long time will mean that the company's cash flows are stuck and may even make strategic bottle necks and hence a possibility of risking the potential for the company. Hence, it is important for the organization to reduce the ration and the days of inventory on hold which will in turn impact the cash flow of the company. Adidas Group's financial ratio indicates that a key concern needs to be addressed by the company and is integral for future growth of the company. The Group's inventory turnover turned into green from over 130 days in 2011 to slightly over 116 days in 2012. However, the company's inventory position worsened to slightly less than 131 days indicating that the company's key concern is yet to be addressed. This has been because the company's entrance into the newer markets has built the inventory of the company which is expected to deliver in the newer markets. (Moram, 1974)

Debit Ratios:

Market fundamentals indicate that organizations generally do not invest their capital into a company but instead maintain a restricted investment stand from the shareholders and a major piece is composed of the debt piece of the organizations. This is to ensure that the company has liquidity and is able to reduce the risk profile of the investors and stakeholders in tough situations. Concurrently, the mix of debt portion and equity will vary amongst organizations based on the market behaviors and the industry. The analysis of the debt ratio is primarily to understand the risk profile of the company and the position of the company in terms of market performance.

Degree of Financial Leverage:

Financial analysts and stakeholders assess the performance delivery of an organization on the leverage ratio that the company is in and how well poised is the company to deliver in the current market scenarios. Fundamental basics reveal that the company's ratio of debt funding is defined by the financial analysts who are able to identify the potential in the company. The piece of the debt defines the interest portion of the company and the greater the interest expense, the greater is the situation that the company will be investing funds from equity. The ratio is generally assumed to remain above 1 which indicates that the company's income portion left after interest expense allows the company to maintain the business operations. When analyzing the financial performance of Adidas Group, the figure remains approximately 1X **. (**Buckleg, 1991) The current portion of the interest expense has brought down the ratio to 1.08X which has been primarily because the funds have been invested into newer markets with the identification of growth potential.

Conclusion

The financial analysis of Multinational Companies Case of Adidas Group indicates that although it has been in good shape over the two year period but there are certain parameters of thwarted efforts which will have to be addressed. This is primarily because the company's anticipation for growth should translate into the shareholder expectations. The fundamental basics of the company have been strong and have shown the potential to deliver in the market, but this is important for the organization to ensure that the entrance into the new markets delivers. This has to be done by maintaining the right level of liquidity within the company and to continuously analyze the movement of inventory. This will ensure that the right quantum of inventory is maintained and any change in the inventory movement is monitored to address the market needs. Concurrently, the debt has to be maintained in order to ensure that in situations where the revenues increase does not get articulated into the interest expense.

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