Phase 2 Individual Project

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Apex Printing

Ratios

As of December 31, 2013 and 2012

				2013	2012
Current ratio	=	Current Assets/Current Liabilities	=	1.13	1.29
(Long-term) debt to equity ratio	=	Long-Term Debt/Share Holder's Equity	=	0.65	1.58
Gross margin percentage	=	Revenue-Cost of Goods Sold/Revenue*100	=	28%	21%
Net profit margin percentage	=	Net Profit/Revenue*100	=	5.83%	1.37%
Return on equity percentage	=	Net Profit/Share Holder's Equity*100	=	31.05%	10.27%

Current ratio

The current ratio is an important indicator which suggests the ability of the firm to pay back its short-term obligations (debt and payables) through its short-term liquidity assets (inventory, receivables, cash in hand etc). Generally, the higher the current ratio of a firm, the more capable it is to pay its obligations. The ratio within 1 is generally assumed that company might not be able to pay of its short-term obligations and thereby provide insights into good financial health of a firm at the certain point in time. Although it is a good sign, it does not necessarily determine whether a firm will go bankrupt since there are many ways to access financing.

In the case of Apex Printing, it is evident that current ratio of the firm for year 2013 significantly reduced compared to year 2012. However, given the general assumption of ratio greater than 1, it can be said that Apex Printing is capable it is to pay its obligations. The reduction in the current ratio from year 2012 to 2013 also indicated that Apex Printing is able to turn its products into cash. However, this reduction might also indicate that Apex Printing may have long inventory turnover or trouble getting paid on their receivables which can substantially create liquidity problems for the firm in future.

(Long-term) debt to equity ratio

The long-term debt to equity ratio indicates the leverage of the company and identifies the higher risk for investors. Generally, the higher the debt/equity ratio, the more aggressive and riskier a firm is in financing its growth with debt as compared to equity. However, depending on debt can create trouble in terms of volatile earnings due to additional interest payments.

In the case of Apex Printing, it is evident that company has reduced its dependence on debt from 2012 to 2013. However, the ratios of both years suggest that a lot of debt is used in Apex Printing to finance increased operations to potentially generate more earnings. Also, in year 2013, the interest expenses are higher as compared to previous year, thereby indicating that the shareholders cannot benefit as more earnings since amount of debt cost or interest is increasing. However, since the company has shown more profitability, it is suggested that Apex Printing has invested in good projects to produce earnings and debt financing outweigh the income generated in year 2013.

Gross margin percentage

Gross margin measures the profitability of sales, after sales deductions (sales tax, returns, rebates and discounts) and the cost of goods sold. This indicator thus provides the most direct indication of how much the company is gaining the immediate result of their activity.

In the case of Apex Printing, it is evident that gross margin of the firm has increased in 2013 from 2012. The gross margin of the company in year 2012 was 21% which indicates that the company is able to retain $0.21 for every dollar of revenue generated by sales. Similarly, the gross margin of the company in year 2013 was 28% and slightly better than previous which indicates that the company is able to retain $0.28 for every dollar of revenue generated by sales.

Net profit margin percentage

Similar to previous indicator, net profit margin percentage indicates the profitability (after income and taxes) of firm generated from sales. The net profit margin of Apex Printing indicates that company was able to earn net income of $0.137 and $0.583 on every dollar invested in sales for year 2012 and 2013 respectively.

Return on equity percentage

The return on equity (ROE) shows the percentage net profit generated from shareholders' equity. It shows the ability of a company to add value to itself using its own resources i.e. shareholders' money. The ROE of Apex Printing indicates that company was able to earn net income of $0.1027 or 10.27% and $0.3105 or 31.05% on every dollar invested in shareholders equity for year 2012 and 2013 respectively. The ROE of Apex Printing indicates that a company can grow using nothing beyond (debts) what it already has. It is concluded that Apex Printing is in good financial health, however, using ROE with other indicators, it is important for investors, shareholders, financial, and other entities to track potential and stability of a company.

Apex printing Return on equity has been increasing indicating that company is efficiently utilizing investor investment in order to generate revenue. In 2012 ROE was 10.27% which means that investors would be getting 10.27% from the revenue that is generated in 2012 while in 2013, they will get 31.05% which is more than previous year. An increasing trend is much attractive to customer (Peterson, Fabozzi, 2012).

From the above analysis, the overall financial position of the Apex printing is better excluding liquidity management. Looking at profitability, efficiency and debt ratio, Apex printing financial performance is outstanding. Overall, Apex's ratio is indicative of better performance and it is recommended for investors to invest in this company's stock since their trend has been increasing from last year and it is expected that in future company would be improving their overall financial position (Peterson, Fabozzi, 2012).

References

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