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PROFITABILITY ANALYSIS OF LONZA GROUP LIMITED

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Abstract

This paper is an endeavor to portray the profitability position of Lonza Group Limited. This case study is entirely based on secondary data. The data has been gathered from the annual reports of the company from 2009-2013. There are so many ratios that are available to analyze the profitability position of a company. In this study few ratios like Gross Profit Ratio, operating Profit Ratio, Net Profit Ratio, Return on Net worth (RONW) etc., were taken to determine the profitability position of Lonza group Ltd.

Key Words: Gross Profit Ratio**,** Lonza, Net Profit Ratio, Return on Net worth.

Preface of Lonza Group Limited

Lonza is one of the best world's most-trusted and leading suppliers in the field of Pharma & Biotech and Specialty Ingredient markets. The company is involved in science and technology to generate products that make animals' and people's lives healthier to improve the overall quality of life and well being. The company products and services range from industrial preservatives to microbial control solutions that combat dangerous virus, from active pharmaceutical ingredients and stem-cell therapies to drinking water sanitizers, bacteria and other pathogens, from the

manufacture of vitamin B compounds and organic personal care ingredients to agricultural services and products.

The entire company is structured/organized into two market-focused segments: Pharma & Biotech and Specialty Ingredients. The core competencies that span these segments are advanced manufacturing and quality-control systems, superior regulatory expertise, in-depth market knowledge, and extensive technical customer-support and R&D capabilities.

Statement of the problem:

Pharma & biotech are the foremost important products in the present World. The company continues to leverage its core strengths in know-how, innovation, and regulatory adeptness while capturing cross-divisional synergies in manufacturing, research, and sales. The growing capacity of demand will raise the profitability position of the company. Profitability is the key factor for the continued existence and growth of any organization. Hence it is very imperative to evaluate the profitability position of the company.

Objectives of the Study:

- To depict the brief profile of Lonza Group Limited.
- To study the importance of profitability of the company by selecting a small number of essential parameters such as Gross Profit Ratio, Net Profit Ratio, etc.
- To assess the critical factors which affect the profitability of the company.
- To offer suggestions if necessary for the improvement of the profitability position of the company.

Limitations of the study:

- The study covers only 5 years period i.e. 2009-2013 for the financial analysis of Lonza.
- The secondary data used in this study have been taken from the published consolidated annual reports of the company.
- Only few ratios were considered to examine the profitability of the company.

Research Design and Methodology:

In the present study the sample unit named Lonza has been taken to analyze its profitability by using certain ratios. The present study is based on the secondary data. The information has been collected from the published consolidated annual reports of the company. The collected data was

edited and tabulated as per the requirement of the profitability analysis of the company. This study has covered 5years data from 2009-2013 for the purpose of analyzing the profitability of Lonza.

Hypotheses of the study:

H_0: The profitability of Lonza is similar during the study period.

H_1: The profitability of Lonza is not similar during the study period.

RESULTS AND DISCUSSION

Gross Profit Ratio

The gross profit ratio shows the proportion of profits generated by the sale of products or services, before selling and administrative expenses. It is used to examine the ability of a business to create sellable products in a cost-effective manner. A higher ratio is a sign of good management as it means that the cost of production is relatively lower as compared to the income. It is calculated as follows:

$$GPR = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

Table – 1 Statement of Gross Profit to Net Sales

(in million CHF)

Year	Gross Profit	Net Sales (RS.)	Gross Profit Ratio
2009	545	2690	20.26
2010	711	2680	26.52
2011	700	2692	26.00
2012	1005	3925	25.61
2013	826	3584	23.04
Mean	757.4	3114.2	20.26
		SD	2.34
		CV	11.54

Source: Consolidated Annual Reports of Lonza

Table 1 projects the relationship among gross profits to net sales. From 2009-2011 the gross profit ratio is in increasing trend thereafter it is in decline manner. The highest ratio falls in the year 2010 and the lowest ratio falls in the year 2009. The declining trend of gross profit ratio is not a good sign to the company as it projects that the cost of production is relatively higher as compared to the income.

Operating Profit Ratio

The operating margin ratio, also known as the operating profit margin, is a profitability ratio that measures what percentage of total revenues is made up by operating income. In other words, the operating margin ratio demonstrates how much revenues are left over after all the variable or operating costs have been paid. It can be calculated as follows:

$$= \frac{\text{Earnings before interest and tax}}{\text{Net Sales}} \times 100$$

Table – 2 Statement of Operating Profit to Net Sales

(in million CHF)

Year	EBIT	Net Sales	Operating Profit Ratio (%)
2009	239	2690	8.88
2010	374	2680	13.95
2011	261	2692	9.69
2012	340	3925	8.66
2013	253	3584	7.05
Mean	293.4	3114.2	9.64
		SD	2.31
		CV	23.96

Source: Consolidated Annual Reports of Lonza

The above table 2 shows the relationship between operating profit to net sales. The trend line of this ratio is in declining manner from 2011 onwards. The lowest ratio falls in the year 2013 and the highest ratio falls in the year 2010. From the above table it is clear that the operating ratio is not in a satisfied manner. Hence we can recognize that the operating costs of the company are increasing there by it reduces the revenue of the company i.e. EBIT.

Net Profit Ratio

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. A high net profit ration will reveal an advantageous position in the face of falling sale price, rising cost of production or declining demand for products. NPR can be calculated as:

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Table – 3 Statement of Net Profit to Net Sales

(in million CHF)

Year	Net Profit	Net Sales	NPR (%)
2009	159	2690	5.91
2010	284	2680	10.59
2011	154	2692	5.72
2012	174	3925	12.07
2013	87	3584	2.42

Mean	171.6	3114.2	7.34
		SD	3.51
		CV	47.75

Source: Consolidated Annual Reports of Lonza

Table 3 indicates the relationship between net profits to net sales. This ratio is used to measure the percentage of net profit to net sales. A higher ratio indicates the good performance of the company. From the above results it is evident that the net profit ratio does not cross at least 15% throughout the study. It is not a good sign to the company. The company performance is to be enhanced by increasing their turnover and reducing the cost of production in order to increase the net profit ratio.

Expenses Ratio

Expense ratio (expense to sales ratio) is computed to show the relationship between an individual expense or group of expenses and sales. It is computed by dividing a particular expense or group of expenses by net sales. Expense ratio is expressed in percentage.

$$= \frac{\text{Particular Expense}}{\text{Net Sales}} \times 100$$

Table – 4 Statement of Expenses to Net Sales

(in million CHF)

Year	Cost of Goods Sold	Other Operating Expenses	Net Sales	Expenses Ratio	
				COGS	OPE
2009	2145	29	2690	79.73	1.07
2010	1969	31	2680	73.47	1.15
2011	1992	22	2692	73.99	0.81
2012	2920	65	3925	74.39	1.65

2013	2758	52	3584	76.95	1.45
Mean	2356.8	39.8	3114.2	75.70	1.22
			SD	2.34	0.29
			CV	0.031	23.77

Source: Consolidated Annual Reports of Lonza

The above table 4 projects the liaison stuck between cost of goods sold and other operating expenses to net sales. The average of COSG is 75.70%. The highest percentage falls in the year 2009 i.e. 79.93%. But on an average the trend line of cost of goods sold to net sales is quite similar throughout the study period.

Another element is operating expenses which are compared to net sales from 2009-2013. This ratio throughout the study period indicates that they are similar with an average of 1.22%. From the above information it is evident that expenses ratio is similar from 2009-2013.

Return on Capital Employed

The return on capital employed measures the proportion of adjusted earnings to the amount of capital and debt required for a business to function. For a company to remain in business over the long term its return on capital employed should be higher than its cost of capital; otherwise, continuing operations gradually reduce the earnings available to shareholders.

$$ROCE = \frac{EBIT}{\text{Total assets - Current liabilities}} \times 100$$

Table – 5 Statement of EBIT to Total assets - Current liabilities

(in million CHF)

Year	EBIT	Total assets - Current liabilities	ROCE %
2009	239	3784	6.31
2010	374	3680	10.16
2011	261	6070	4.29

2012	340	5737	5.89
2013	253	5358	4.72
Mean	293.4	4925.8	6.27
		SD	2.07
		CV	33.01

Source: Consolidated Annual Reports of Lonza

Table 5 indicates the association sandwiched between EBIT to total assets-current liabilities. Normally a higher ratio indicates the earnings potentiality of the company and it is also a good sign to the company. The above table projects that the return on capital employed is in a declining manner from 2011 onwards. The highest ratio falls only in the year 2010 i.e. 10.16%, this is not a satisfied one.

Summary and Conclusion:

The company's gross profit ratios are in a downward falling from 2011, which projects that the cost of production is somewhat higher as compared to the income of the company. The operating profit ratios of the company was also not in a satisfied manner throughout the study period, as it states that the operating costs of the company are increasing day-by-day, which in turn leads in the decline of income/earnings of the company. The net profit ratios of the company are also not consistent through the study period. And these ratios are not in a satisfied manner, which indicates the weak earnings of the company. With this information it is clear that the profitability position of the company is not similar throughout the study period i .e. from 2009-2013. Hence, null hypothesis is to be rejected by accepting alternate hypothesis. The company has to improve its performance by increasing their sales volume, reducing the cost of production; minimization of wastage etc. in order to enhance their profitability which in turn leads the increase in the income of its shareholders.

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