Executive Memo

Student’s Name

Institution

**Profitability/Net income margin**

Analysis of company’s performance and position involves comparison of the financial statements (Subramanyam, 2009). Therefore, Disney and Netflix have different statements that aid the measurement of the performance and position of the business. Net income ratios obtained from the two companies vary, that is, for Disney in 2018 is 21% and for Netflix in 2018 is 8%. However, comparing the two companies Disney performs well since it has a high net profit margin in the current year than Netflix. Comparing the companies based on the years of operations, Disney performs well in the current year than previous years and so is Netflix performance. Disney has a high net profit margin since the company has high sales with less expenses hence huge profits.

**Accounts Receivable Management**

Disney deals in credit sales, which is not the case for Netflix. The credit sales take up to 54 days to collect. Debtor’s collection period reduced in the current year implying that there were reduced debtors compared to prior years for Disney. Netflix seems to deal in cash sales hence no debtors available. The trend for the days outstanding period for Disney in 2016 the period was low, in 2017 the period increased and in 2018 the period reduced. Disney should consider giving discounts and increase the value of credit terms to restrict many people from taking credit. The discounts will encourage people to pay on time hence reducing the days sales outstanding period.

**Cash is King**

Disney generated 14,295 Million cash from operating activities while Netflix made a loss of 2,680 Million from operating activities. This is an indication that the Disney utilizes its operating activities to generate a positive cash inflow. Netflix operating activities utilize more cash then what the activities generate. Therefore, Disney company has good policies relating to operating activities hence generates cash than Netflix. Disney uses the cash to invest in different activities. The company uses the cash to invest in capital items and for acquisitions. This means that the company generates sufficient funds for the shareholders. On the other hand, Netflix uses a small portion of cash for investments hence no return to the shareholders. The company uses the cash to settle creditors leaving the company with no money to pay the shareholders.

**Liquidity**

The current ratio is a measure liquidity level of the company. An ideal current ratio is 2:1 that means the company’s current assets can settle the liabilities twice (Penman, & Penman, 2007). In this case, the company is liquid and the creditors can have trust in the company. Disney has a current ratio of 0.94 in the current year, 0.81 in 2017 and 1.01 in 2016 implying that the ratio was high in 2016, reduced in 2017 and increased in 2018. This means that the company’s creditors can only be settled to an extent of once using the available current assets. On the other hand, the Netflix has 1.49, 1.4 and 1.25 ratios for 2018, 2017, and 2016 respectively implying that the company ratio increase over the years. This means that the company has more current assets than liabilities. Therefore, the company can settle the liabilities more than once using the available current assets.

Yes, the current ratios for Disney Company indicate that the company may be bankrupt soon. This is because the ratios are less than the ideal ratio and may not meet the liabilities. Therefore, the creditors may go unpaid for a long period since the current assets of the company cannot settle the liabilities as necessary. However, basing on other factors, Disney is performing well and has a return to the shareholders who are the providers of capital despite reinvesting part of the cash in capital investments and acquisitions.

References

Penman, S. H., & Penman, S. H. (2007). *Financial statement analysis and security valuation* (Vol. 3). New York: McGraw-Hill.

Subramanyam, K. R. (2009). *Financial statement analysis*. Includes index.