COVER PAGE AND DECLARATION

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Student's Full Name:	Mahmoud Rajab Mohammad Abualsha'ar
Student ID:	EIU2022804
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E-SIGNATURE:

DATE: 2-5-2025

EIU Paris City Campus
Address: 59 Rue Lamarck, 75018 Paris, France | **Tel:** +33 144 857 317 | **Mobile/WhatsApp:** +33607591197 | **Email:** paris@eiu.ac

EIU Corporate Strategy & Operations Headquarter
Address: 12th Fl. Amarin Tower, 496-502 Ploenchit Rd., Bangkok 10330, Thailand | **Tel:** +66(2)256923 & +66(2)2569908 | **Mobile/WhatsApp:** +33607591197 | **Email:** info@eiu.ac

MGT570: Financial Management

Module Assignment: Financial Report

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Introduction

The tremendous development that occurred at the technological and economic level and the expansion in the economic and regulatory field paved the way for the emergence of globalization, which was largely accompanied by openness until it ended in a clear overlap of matters of economics, society, politics, and culture, without any regard to the political borders of countries.

Economic institutions face many challenges as a result of the rapid and profound developments the business world is witnessing in several fields, which are reflected in one way or another on the latter and put them in constant conflict with an environment characterized by intense competition, not necessarily in order to achieve their progress and prosperity, but often in order to maintain On its survival. The large size of institutions, the complexity and complexity of their activities and work, and the inflation of the number of data and influences have led to the necessity of providing accurate information that effectively benefits decision makers at all levels within the institution.

Financial decisions are among the most important decisions that require information in a timely and appropriate form that allows investors and financial managers, as well as managers in senior management, to achieve their goals, because their accuracy and quality is the basis on which important decisions that directly affect the institution are built, and therefore financial information plays a role in Rationalizing these decisions through reports issued by the financial department. From this standpoint, the importance of evaluating financial performance is highlighted by highlighting the strengths and weaknesses of the institution’s financial position. And work to avoid weaknesses, maintain and develop strengths, and gain mastery when facing competing institutions. (Bouchahdan et al., 2012)

The subject of financial analysis occupies great importance in economic, administrative and accounting studies in recent years, as the expansion of organizations and the divergence of the centres and branches of these geographical facilities, in addition to the expansion and complexity of economic operations in the world, and the emergence of new tricks and tools of fraud, deception and embezzlement, have led to the necessity of having an effective control tool. It is financial analysis. (Al-Khairy et al., 2018)

According to a study (Abdullah and Arkhon, 2015), the importance of financial analysis is as follows:

- Financial analysis is one of the effective control tools, and it is similar to an early warning device and a faithful guardian of the facility, especially if it is used effectively in establishments
- Financial analysis can be used to evaluate the economic feasibility of establishing projects and evaluate performance
- Financial analysis is a planning tool as it helps in forecasting future units
- Financial analysis is a tool for making crucial decisions, especially with regard to merger, expansion, modernization and renewal decisions

During this report, a comparison will be made of Google's financial performance by analysing the financial statements over the last 4 years, as Google is considered one of the largest leading companies in the field of information technology, which makes the financial analysis process clearer to determine the efficiency of financial and administrative activity within the company, through Analysing basic financial statements such as the financial position statement, income statement, and cash flow statement. Over the past 4 years, using the most important financial ratios such as profitability, liquidity and leverage to understand the strengths and weaknesses in the company's performance and future growth opportunities for its investments in the field of digital products in light of the high competition and the entry of new companies in the field of artificial intelligence, which are considered the most important competitors to Google currently. With the aim of helping decision makers adopt more accurate investment decisions.

Assignment Answers

1- Create a performance evaluation by analyzing the following performance measures: a) Profitability b) Efficiency c) Short-term Solvency d) Long-term Solvency e) Market-based Ratios

A) Profitability:

- In 2020, the gross profit margin was accounted to be 53.58%, whereas in 2024 it grew to 58.07%; apparently, costs are quite well controlled.
- The operating profit margin is thus another indicator that has risen from the 22.59% level in 2020 to the 32.21% level in 2024, indicating good control of operational expenses.
- On net profit margin, it is also increasing from 22.06% in 2020 to 28.69% in 2024; this shows that there is greater overall profitability.
- Return on Equity (ROE) which stood at 19.00% in fiscal 2020 saw the highest rise to 32.91% in 2024, signifying higher returns to the shareholders.
- Return on Assets (ROA) increased much from 8.65 in 2020 to 16.74% in 2024, suggesting better asset utilization.

B) Efficiency

- Asset Turnover Ratio: improved from 0.61 in 2020 to 0.82 in 2024, which confirms it has become more effective in terms of generating revenues.

C) Short-term Solvency

- The current ratio stands below 1.00, tracking down from 3.07 in 2020 to about 1.84 in 2024, but still provides ample current assets to meet the expenses in terms of liabilities.
- The liquidity position stands still decent in spite of the ratio reducing from about 1.66 in 2024 as against 2.96 in 2020.

D) Long-term Solvency

- The debt-to-equity ratio shrunk from 0.13 in 2020 to 0.09 in 2024, signalling low debt financing levels.

- The debt-to-EBITDA ratio: down from 0.48 in 2020 to 0.21 in 2024, indicates strong earnings relative to debt levels.

E) Market-based Ratios

- Price to earnings ratio- The price to earnings ratio has finally come down from a record high of 29.43 in 2020 to a minimum of 23.21 in 2024, basically indicating reasonably valued earning.
- Price to Book ratio- The Price-to-Book ratio has, instead, become borne from a 5.33 in 2020 to 7.15 in 2024, thus painting a rather bright market picture so far as the company's potential in future is concerned
- Earnings Yield-An upward trend was witness as Earnings Yield shoot from 3.40 percent in 2020 to 4.31 percent in 2024, thus signalling better returns on investment.

2- Suggest recommendations for improving the company business based of your report and research.

Based on four years of analysis on Google Co. financial ratios, a company that can successfully convince anyone on strong profitability, efficiency, and solvency is a case in point for considerable financial management. Then again, strategies somewhere could be revisited for enhancing sustainable long-term growth.

For one, its level of profitability (with increasing ROE and ROA) is very good for Google Co., but it could do with more optimization in capital allocation. Investing more heavily in its high-margin activities such as AI, cloud computing, and autonomous technologies would be wise, given its competitive edge in such areas. Expansion in these segments will fortify income streams and further safeguard long-term profitability.

Secondly, while the current and quick ratios still exceed industry standards, a slight decline in these areas suggests a relative decrease in liquidity. To avoid temporary cash flow problems during recession periods, tighter control over working capital management with regard to receivables and inventory should be exercised so that the company will be able to operate flexibly.

Third, this low debt-to-equity ratio reflects conservative financing- a good thing. That said, the company could also consider taking a little debt to finance expansion projects, especially given the low-interest-rate environment that prevailed and its current cash-flow position. This would be a case where borrowing could also enhance shareholder returns, when the investments are primarily revenue producers.

3- Recommend one new investment project to the company. The company wants to expand its business through an investment project; however, it can only capitalize 40% through own capital.

a) Indicate whether it is a good idea by using NPV and WACC.

b) Indicate whether the company must use its own cash or use retained earnings.

Proposed Investment Project for Google: Expansion of Google Cloud into Newer Markets from the financial analysis above-highlighting Google's high profitability, operational efficiency, and good solvency-one investment project in strategic and financial viability is the expansion of Google Cloud infrastructure and services into emerging markets, particularly in Southeast Asia, Sub-Saharan Africa, and parts of Latin America.

Project Overview:

Google Cloud is a high-margin and fast-growing segment and already constitutes one of the major building blocks of Google's diversification beyond advertising, but cloud services in many emerging markets remain grossly undeveloped and under-served. By making investments in localized data centers, service partnerships, and AI-enhanced solutions that are customized to the regional needs, Google will be thinking about capturing early market share and building a dominant position before everyone else saturates these areas.

This project is highly commensurate with the strong operating cash flow, high ROA, and ROE, as well as a low debt-to-equity ratio, as noted from the earlier analysis. The company has also the requisite financial capacity and technical know-how to lead in such untapped markets.

Financial Strategy:

Google requires internally playable 40% of the required capital using retained earnings and available cash reserves. The remaining 60% should fund through external finance, preferably using a combination of long-term debt and strategic co-investments or public- private partnerships. Given Google’s extremely low debt-to-equity ratio (0.09 in 2024), it has adequate amounts to incur debt at low-cost, without impairment to eventual solvency or health standards.

Net Present Value (NPV) and WACC consideration: Preliminary estimates (based on comparable cloud expansions and industry benchmarks) show that these projects yield a favourable NPV over a time span of 5-10 years, as a critical dependence on such pooled digital infrastructures develops in these regions. Given Google's low estimated weighted average cost of capital (WACC) below 8% and its historical high expected return on investment in cloud services (12-15%), that would make NPV positive and validate the attractiveness of this project.

Strategic Benefits:

- Revenue Generation: New avenues for advertising transformation- Even though Google will have these new markets for Google Cloud services personalized, the advertisement revenues will be one time as there will not be recurring revenue streams because ad spots subscription won't work. Thus, a fair part of Google's dependence from this branch as advertisement business can be reduced.
- First Mover Advantage: In fact, virtually all of the emerging economies do not have a single incumbent solution provider for cloud services. For Google this will mean establishing standards in such spaces and reaping huge benefits from long-term customer loyalty.
- Support to Local Economies: Such investments will create a digital architecture that could really create an impact on local economies and education systems; more importantly, it would be the creation of goodwill and sustainable partnerships with governments and institutions.
- Sustainability Goals: As per their integration of implementation lines with global ESG standards, Google has the capacity to implement green energy and sustainability initiatives within new data centres - hence possibly to be attractive to socially responsible investors.

Given the financial muscle, strategic position in the technological ecosystem, and futuristic thinking of Google, investing in expanding Google Cloud into emerging countries is a wise and sustainable investment. This adds value to what already exists in the company, exploits the liquid assets and profitability in a strong manner, and taps into potential markets with significant presence in fast-growing regions. Financial viability underpinned by solid NPV and a manageable capital structure makes.

a) **Indicate whether it is a good idea by using NPV and WACC.**

Expansion of Google Cloud to the emerging market is a good project as it has a positive NPV. A WACC of around 8 percent was assumed (the project is rated low risk with high creditworthiness). Historically, a 12-15 percent return on investment would be justified for a project like this; therefore, cash inflows will exceed the cost of capital. Thus, simply put, a positive NPV tells you that this project is worth more to the company than it costs; hence, it will create wealth for the shareholders. So, in capital budgeting terms, it is a gratuitous investment.

b) **Indicate whether the company must use its own cash or use retained earnings.**

Considering Google's profitable company with high retained earnings, the company should fund its 40% equity contribution through **retained earnings** rather than cash. This would preserve liquidity and be in line with best financial conduct in view of the declining quick ratios and current ratios for Google. Retained earnings are often considered better funding because they do not lead to realistic debt creation or dilution of ownership. For the next 60 percent, Google should consider financing via long-term debt at low rates since it is in a very strong credit position having low debt and equity ratios. Such a structure ensures efficient growth financing while optimizing capital structure.

4- Decide whether or not the company should pay return earnings or not

If Google Should Distribute Retained Earnings as Dividends on the basis of the analysis of Google's financial performance for the past four years, it has been suggested that Google should not approve any dividend from its retained earnings in the present scenario. Instead, it is suggested that the company reinvest these earnings in high-return growth programs such as the expanding Google Cloud into emerging markets, advancements in artificial intelligence (AI), and sustainable infrastructure projects.

Justification:

- Growth Oriented Business Model: Google operates in a highly innovative and competitive technology sector in which reinvestment into research, development, and expansion is necessary on a continuous basis. The company has reinvested earnings into projects with high returns, which is reflected in the continuing increase in Return on

Equity (ROE) and Return on Assets (ROA). Distributing retained earnings at this point would essentially curtail its capacity to self-finance the mentioned investments.

- Strong Financial Position: Google is financially stable, with healthy cash flows, highly profitable, and with low levels of debt. However, re-investing retained earnings preserves liquidity in an uncertain global economy where external financing may be expensive.
- Market Expectations: Investors in emerging stocks generally prefer capital appreciation through share prices rather than dividends, particularly interests by the technology companies. Innovations, infrastructure creation, and global trading expansion could sustain long-term shareholder value building with retained earnings.
- Comparative Industry Practices: Most other giants in the tech industry such as Amazon and Meta don't pay dividends; they invest all their cash. This is the general trend in the industry, which is kept because of growth and competitiveness.
- Fund Strategic Projects: In the previous exhibits, we have mentioned that Google has planned to expand its cloud services into more new markets and so on, which will definitely require a big pile of capital. The project will be funded directly by retained earnings to ensure 40% independence from any other sources of funding in case of unexpected requirements.

On the other hand, paying retained earnings will tie Google's hands in terms of flexibility and competitive advantage. These earnings should be invested in future-oriented projects, thus maintaining the course of innovation and value creation for shareholders. Hence, retention of earnings is the best option.

Conclusion

Thorough Financial Analysis and Strategic Recommendations for Google Company

Now, Google has been consistently strong within the four financial years with respect to improved profitability and increased efficiency. Besides a robust solvency position, the company also has market-related valuations based on these performance metrics. This analysis has included understandings of the financial information published by google with regard to profitability, efficiency, solvency in the short and long-term, and market ratios that give a perspective on drawing together the operational and financial health of the company.

Profitability Analysis: The ratio measures of Google already indicate that the company has a good earning generation capacity. Gross profit margin kept rising, which means that costs are being controlled as well as having price-effectiveness. Improvements on net profit margin and return on equity are a function of effective management combined with a strong bottom line. The return on assets grew yearly, showcasing effective resource usage in generating earnings. Therefore, all those indicators are making a good bottom line, confirming that Google can sustain internal growth funding.

Analysis of Efficiency: The efficiency analysis of the asset turnover ratio perpetually grows, clearly pointing out the capacity of the organization to generate revenues effectively from asset bases. In that sense, asset management is diligently handled by the organization as the major return-generating activities are technology and infrastructural investment for Google. The fact that there are efficient operations means sterner company, and Google indeed fits that definition.

Short-Term Solvency: The company has slight declines in the current ratio and quick ratio, which, however, remain above and beyond industry standards. The company can create liquidity and meet short-term obligations. Good liquidity allows Google to meet operational requirements and undertake short-term projects without financial challenges. Strategic changes in working capital management could, however, accrue more Favor.

Long-Term Solvency: Google describes this financial investment with a patently conservative capital structure through a very low debt-equity ratio and even lower debt-EBITDA ratios. The conservativeness of financing means only a very minimum leverage on the part of Google, thus leaving room whenever necessary to go into debt for the growth purposes. This apparent position with regard to solvency gives it financial stability and also creates a platform under which it can make hefty investments without derailing the balance sheet.

The market ratios comprise the price-to-earnings (P/E) ratio and the price-to-book (P/B) ratio: Both ratios depend on a good deal of investor confidence and due valuation. The two ratios have been more or less stabilized now, yet they are still much more acceptable than the industry competition, which in turn adds to the stature of Google as a growth-oriented and fundamentally strong company.

Strategic Investment Proposition: Google, a strong and financially sound company, devotes great resources to sustaining innovation, and therefore, this would be an attractive investment project: expansion of Google Cloud into still-developing markets. These markets are now poorly served in cloud infrastructure, thus holding a lot of promise for development. Getting there early will give Google an easy first-mover advantage and might also forge good long-term partnerships with the respective governments and enterprises in these new geographic regions.

This perfectly fits into the overall growth strategy of the company and leverages its best-known assets in AI, data management, and scalable infrastructure. Based on capital budgeting metrics, this investment greatly Favors financial feasibility. These returns are expected to be net positive, which clearly means that the financial feasibility of this project is accompanied by brighter profitability forecasts. Therefore, returns on investment projecting figures greater than company's Weighted Average Cost of Capital (WACC) that stands at about 8% can expect favourable Net Present Value (NPV). Thus, this provides strong validation.

Financing strategy: In choosing the most suitable financing for the project and, as a result, to reduce liquidity risk, it is advised that Google finance 40% of the project with retained earnings. The remaining 60% can be sourced through long-term debt or strategic alliances. There will be cash with an optimal capital structure for Google this way. Then, they will utilize retained earnings and keep cash for liquidity, thus preserving resources for sudden business opportunities or unexpected risks.

Dividend policy decision: Based on growth opportunities and reinvestment needs, together with expected market policies, it is suggested that Google should not pay dividends from retained earnings at this time. Instead, these earnings should be used to fund attractive projects such as cloud growth, AI, and green tech infrastructure. These investments, over the long term, would yield returns way higher than any returns that could be enjoyed through dividend payoffs. Generally, the trend in high-tech investors is to start laying priority on price appreciation over current payout, and Google aligns with this approach through its reinvestment policy.

Consider the following five recommendations that could cause improvements in any operating business.

1- **Working Capital:** the liquidity position of Google is sound; however, the declining current and quick ratios are worth the company's attention. Google should also look into the receivables and payables turnover days and inventory turnover days to use its short-term assets more efficiently.

2- **Investor Communication Needs to Be Stronger**: Google must communicate its long-standing vision and projected pipeline to generate favourable investor sentiment and therefore its stock value, presently at a most questionable level with wild fluctuations in some market-driven ratios like price/earnings ratios.

3- **Regional Diversification Continuation:** In addition to expanding its cloud platform, Google may consider investing in localized products and services for developing economies, such as multilingual AI tools, low-cost hardware, and education-focused digital platforms.

4- **Moderate Levels of Debt for Growth:** With a very low leverage margin already, Google can afford a moderate amount of debt in its financial structure, thus benefitting from the low-interest rate paradigm and diversifying its finance sources.

5- **Sustainability Integration:** The growing emphasis on ESG (Environment, Social, and Governance) frames globally demands Google to integrate sustainability targets in all its major investment projects. This will not only ensure compliance to laws and ethics but also move the corporation forward.

In conclusion, Google's financial performance in the last four years provides a strong fulcrum for future growth. The conglomerate has returned a remarkable profit, exercised operational efficiency, and maintained a conservative financial framework that allows it to invest in growth while at the same time assuring some stability. The investments planned for cloud services in emerging markets are built on solid financial reasoning and align to the long-term vision with strong NPV forecast and manageable finance requirements.

Retained earnings for reinvestment rather than returning dividends resonate with Google's focus on innovation and those values in the eyes of its stakeholders. With a strategic growth mindset, Google is able to achieve operational efficiency and discipline in financial management, thereby ensuring its continued leadership in the technology arena with long-term shareholder value. This holistic worldview will ensure that some market opportunities should define Google as a market leader in adaptation to changing global needs.

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