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“Framework to Analyze the Financial and Operational Performance of an Enterprise”

Nikhil A. Mohkhedkar, Systems Science and Industrial Engineering

Advisor: Dr. Krishnaswami “Hari” Srihari, SUNY Distinguished Professor and Watson College Dean

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Quick Register: <https://bit.ly/2OhJ1xm> | Zoom link/location details provided after registration.



The term “Company Analysis” has many facets, and the actual meaning of the term depends upon the objectives of the analysis. An external investor could look at it as a potential long-term investment while a competitor searching for business expansion opportunities would look at it from a ‘mergers and acquisition’ prospective. Internal to the organization, an executive could be studying the company’s growth over the years and using the knowledge gained to make strategic decisions. On the other hand, the objectives can also pertain to the short-term analysis of stock to make trading decisions. However, in all these scenarios, a structured approach is essential to ensure that the correct decision is made while considering the dynamic and probabilistic nature of the market.

A framework was developed to perform the financial and operational analysis of an enterprise from a holistic perspective while considering objectives such as long-term investment decisions, mergers and acquisitions, and stress-test analysis. This framework has four different phases. Phase one focuses on the history, major events, and the business model of the enterprise. It helps to answer questions associated with the founding objective and the strategy that was adopted, revenue stream, targeted market, targeted customer, operating strategy, and the value proposition. The second phase focused on analyzing the annual reports and analyzing the company’s operations. In this phase, the key performance indicators (or KPIs) were identified, data was collected for these KPIs and analyzed taking into consideration two objectives namely (i) understanding the company over the years and (ii) comparing the enterprise under study with the competition and the overall performance of sector.

The penultimate phase described the method used to perform the financial analysis of an enterprise. This phase has two sub-phases. Sub-phase 1 focused on the retrospective analysis of the stock price of an enterprise and variations over the life of the company and a comparison with market indices such as the “S&P500”, “DJI”, “RUSSELL2000”, specific indices of the selected sector such as “DJI Transportation”, and the stocks of major competitors. The second sub-phase focused on the use of various financial ratios with the goal of analyzing profitability, liquidity, solvency, and valuation of the selected enterprise. The last phase of the framework looked at the market outlook, different reasons behind merger and acquisition decisions, and ‘Porter’s 5 forces analysis’. This was done to understand the current standing and future prospects for the selected enterprise.

Further, this framework was utilized to conduct detailed financial and operational analysis of Southwest Airlines. The enterprise was selected based on its resilient and nimble operations. Southwest has been profitable for 47 consecutive years (1973-2019), even during ‘black swan’ events. The four phases mentioned above were used to understand Southwest’s business, operational performance (growth and competition), financial performance (stock price variations, financial ratio analysis), mergers and acquisitions (e.g. acquisition of AirTran in 2012), market outlook for the airline industry (pre and post COVID), and the current market standings (Porter’s 5 forces analysis). The results of the analysis are described.

Nikhil Mohkhedkar is a graduate student in the Department of Systems Science and Industrial Engineering (SSIE) at the State University of New York at Binghamton. He is pursuing his Master’s degree in Industrial and Systems Engineering. Nikhil is also a Graduate Research Assistant with Watson Institute for Systems Excellence (WISE). He holds a bachelors degree in Mechanical Engineering from the University of Pune, India. Nikhil’s research interest includes Collaborative Robotics, Electronics Manufacturing, and Energy Storage Technology.