

Figure 3

Biotechnology Industry Statistics			
Median Company in SIC 2831			
Biological Products*			
	2001	2002	2003
Current ratio .....	2.5	2.3	2.4
Quick ratio .....	1.2	1.1	1.3
Inventory turnover .....	5.5	5.6	5.7
Total asset turnover .....	1.15	1.16	1.18
Return on sales .....	4.00%	4.00%	5.00%
Return on assets .....	4.60%	4.64%	5.90%
Return on equity .....	7.64%	8.44%	12.29%
Total debt to assets .....	0.40	0.45	0.52

  

Selected Statistics			
Pharmacia Company			
	2001	2002	2003
Current ratio .....	2.8	2.7	2.8
Quick ratio .....	1.5	1.3	1.6
Inventory turnover .....	5.6	5.7	5.8
Total asset turnover .....	1.9	2	1.9
Return on sales .....	6.00%	6.50%	7.00%
Return on assets .....	11.40%	13.00%	13.30%
Return on equity .....	19.04%	27.66%	29.56%
Total debt to assets .....	0.40	0.53	0.55
Price-earnings ratio .....	13.7	14	15
Average stock price .....	\$21.78	\$24.92	\$31.50

\* Source: Dun's Industry Ratios. The data have been adjusted for this case.

## Required

You are an investor who is considering adding Chem-Med to your portfolio. As such, you are interested in the company's record of profitability, prospects for the future, degree of risk, and how it compares with others in the industry. From that point of view, answer the following questions:

1. What was Chem-Med's rate of sales growth in 2003? What is it forecasted to be in 2004, 2005, and 2006?
2. What is the company's rate of net income growth in 2004, 2005, and 2006? Is projected net income growing faster or slower than projected sales? After computing these values, take a hard look at the 2004 income statement data to see if you want to make any adjustments.
3. How does Chem-Med's current ratio for 2003 compare to Pharmacia's? How does it compare to the industry average? Compute Chem-Med's current ratio for 2006. Is there any problem with it?
4. What is Chem-Med's total debt-to-assets ratio for 2003, 2004, 2005, 2006? Is any trend evident in the four-year period? Does Chem-Med in 2003 have more or less debt than the average company in the industry?