

## **The Impact of company Profitability on the investment decision**

**Dr. Ibrahim Oleimat**  
**Ali M. G. Khawaldeh**  
**Muaath M. Oleimat**  
**Mohammed A. Oleimat**

### **Abstract**

A study on Golf Clubs Company conducted to examine the company Profitability on the investment decision, the researchers analysed financial statements for three years (2016 ,2017, 2018) for the company to measure and evaluate its financial performance and the impact of the company result on the investors to make the right investment decision. And the results shows that the Investors should invest in Callaway Golf Company carefully. For short term investment, spectacular Investors, it would be risky and not profitable. However, it may suit the long-term investors because they will be able to have their investment back after 3-5 years. However, they should keep watching the news of the company and monitoring its performance. And check the strategy of the company for the coming years and its vision to make sure that the financial position of the company is good and they have a clear policy for the dividends complying with the investors needs and requirements.

In addition to that the researchers recommended that it is needed for the company to focus on all the elements linked with their financial position like Balance Sheets, Cash Flow Statements, Income Statements, Shareholders equity statements and more. This would help every single investor to look among different aspects and then take right action in perfect time frame as well.

### الملخص

اجريت هذه الدراسة على شركة Callaway Golf لتقييم ربحية الشركة على قرار الاستثمار، قام الباحثون بتحليل البيانات المالية للشركة لثلاثة سنوات (2016 ، 2017 ، 2018) لقياس وتقييم أدائها المالي، وتأثير نتيجة اعمال الشركة على المستثمرين في إتخاذ القرار الاستثماري الصحيح. وتظهر النتائج أنه يجب على المستثمرين الاستثمار في شركة Callaway Golf Company بعناية بالنسبة للاستثمار قصير المدى، أما المستثمرين المتميزين، سيكون ذلك محفوظاً بالمخاطر وغير مريح. ومع ذلك ، قد يناسب المستثمرين على المدى الطويل لأنهم سيكونون قادرين على الحصول على استثماراتهم بعد 3-5 سنوات. كما يجب عليهم متابعة أخبار الشركة ومراقبة الأداء، والتحقق من إستراتيجية الشركة للسنوات القادمة والرؤية للتأكد من أن المركز المالي للشركة جيد ولديهم سياسة واضحة لتوزيعات الأرباح تتوافق مع احتياجات ومتطلبات المستثمرين. بالإضافة إلى ذلك، أوصى الباحثون بضرورة أن تركز الشركة على جميع العناصر المرتبطة بمركزها المالي مثل الميزانيات العمومية وبيانات التدفق النقدي وبيانات الدخل وبيانات حقوق المساهمين والمزيد، حيث سيساعد هذا كل مستثمر على النظر بين الجوانب المختلفة ثم اتخاذ الإجراء الصحيح في إطار زمني مثالي أيضاً.

**TITLE:** “The aim of the study is to examine the company Profitability on the investment decision. A study on Golf Clubs Company.”

## **Introduction:**

“Financial Statements are very important to measure and evaluate the situation of any company financially. The key components of the financial statements are the income statement, financial position statement, and statement of cash flow. These statements are prepared and designed to be taken as a whole, to present a complete picture of the financial condition and results of a business.” (Bragg and Bragg, 2018). These indicators can give the answers to the investor’s questions to make the investment decision or not.

Financial Ratios Analysis is a useful management tool that improves the understanding of financial results over time and provides key indicators of organizational performance. Managers use ratio analysis to pinpoint strengths and weaknesses from which strategies and initiatives can be formed and to report their management about the weaknesses and how can be improved to increase the income of the company and attract more investors. (Demonstratingvalue.org, 2018)

On other hands and Based on the financial performance of the company and results, the investors can expect that may receive dividends or not and the profitability of the company is very important ratio to the investors, all companies managers always looking for good financial results to be attractive for the potential investors.

All investors looking to get a very good return on their investments to increase their financial wealth with the stable business environment by comparing the investment options that they have, the right investment decision need analysis for business to make sure that there is no taking bath or taking bath techniques used by the managers or the company, for that reason the researcher expect that the investment decision could be impacted by the company profitability.

In this research, the researcher will assess and analyse financial statements for three years for one company to measure and evaluate its

financial performance and the impact of the company result on the investors to make the right investment decision. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries.

## **Background of the company**

After the reading the company profile the researcher noted that they have big operations worldwide and maybe a good option for the investment. Information about the Company's segments and geographic areas in which the Company operates is contained in Note 18 in the Notes to the Company's Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016, and is included as part of Item 8—"Financial Statements and Supplementary Data."

The Company has three operating and reportable segments, namely Golf Clubs, Golf Balls and Gear, Accessories and Other as of December 31, 2018. The Golf Clubs operating segment consists of Callaway Golf woods, hybrids, irons and wedges, Odyssey putters, including Toulon Design putters by Odyssey, packaged sets and sales of pre-owned golf clubs. At the product category level, sales of packaged sets are included within irons, and sales of pre-owned golf clubs are included in the respective woods, irons, and putters product categories. The Golf Balls segment consists of Callaway Golf and Strata golf balls that are designed, manufactured and sold by the Company. The Gear, Accessories and Other operating segment consist of soft goods products, which include golf apparel and footwear, golf bags, golf gloves, travel gear, headwear and other golf-related accessories, OGIO and Travis Mathew branded products, and royalties from licensing of the Company's trademarks and service marks for various soft goods products. Due to the recent acquisition of Jack Wolfskin in January 2019, the Company is anticipating significant growth in its soft goods business, and as such, it will be evaluating its global business platform, including its management structure, operations, supply chain, and distribution, which may result in changes in the composition of its operating and reportable segments.

The Company designs, manufactures and sells a full line of high-quality golf equipment, including golf clubs and golf balls. The Company designs its golf products to be technologically advanced and in this regard invests a considerable amount in research and development each year. The Company designs its golf products for golfers of all skill levels, both amateur and professional, and are generally designed to conform to the Rules of Golf as published by the United States Golf Association ("USGA") and the ruling authority known as The R&A. In addition, the Company designs and develops a full line of high-quality Callaway branded soft goods, including golf bags, apparel, footwear, and other golf accessories, as well as OGIO and TravisMathew soft goods products as described above. The Company's soft goods under the Callaway, OGIO, and Travis Mathew brands are designed and developed internally.

## **Rationale of the research**

There are many reasons that came in front of conducting this study on this topic. Primal research reason that came in front is the self-interest of researcher, because not much researches took place on the chosen topic in previous years and many investors deals with different issues like where they should invest in order to gain appropriate returns on investments that they are trying to make in order to gain appropriate margins of gains in monetary terms. Also, researcher has chosen this research topic is because of its scope which is to enhance profit margins for the different companies that are working at domestic and international markets so that appropriate returns on investments can be given to individuals based on their investments that they have made.

## **Research problem**

Basically, the research problem that has been taken into consideration is to analysing the importance of financial position of a company and then perform any sort of activities like investments and so on. Investing in a company like Golf Clubs is going to be effective or not in terms of future. Also, this research will keep its focus on different elements

like importance of financial statements, different types of financial ratios as well, which needs appropriate attention in order to gain competitive advantages and to take right decisions so that expenses can be reduced to minimal and to enhance the profit margins in much effective and in efficient manner as well.

Also, from many years it has been identified that many investors do not get right returns on their investments and also, it is pretty much clear that stock contributing requires cautious analyses of monetary information to discover the organization's actual worth. This is commonly done by looking at the organization's benefit and misfortune account, monetary record and income explanation. This can be tedious and lumbering. A simpler method to get some answers concerning an organization's exhibition is to take a gander at its monetary proportions, a large portion of which are openly accessible on the web. Including this, it has also been analysed that proportion examination is pivotal for venture choices. It not just aides in knowing how the organization has been performing yet additionally makes it simple for speculators to think about organizations in a similar industry and focus in on the best venture choice. Therefore, these are said to be some of the crucial elements why this research topic has been taken into considerations.

## Objectives

- To analyse the impact of the profitability on the investment decision
- To analyse the importance of Financial Ratios Analysis.
- To identify the financial position of Golf Clubs and ways through which positive modifications that could be made.
- To examine the different issues that can be faced by Golf Clubs while sustaining within the competitive business environment.

## Hypothesis

Hypothesis H01: There is no statistically significant impact for the company profitability on the investment decision .

## Significance of the research

The criticalness of the examination is a piece of the presentation of a proposition/inquire about. It ought to figure out who profits by the research and how that particular crowd will profit by its discoveries. Also, it can be said that primal reason behind conducting this research is because of many individuals as investors do not gets appropriate returns on their investments. Here, capital structure of a company plays an important role, where financial ratios analysis, helps a company like Golf Clubs to deliver right information in front their investors like about their future plans, liquidity status and other information in relation to capital structures, which may impact the investment decision of the investors and company.

## Literature Review

Importance of Financial Ratios Analysis.

According to Wahyudi and Chairunesia, (2019), Ratio Analysis is significant for the organization so as to dissect its monetary position, liquidity, benefit, chance, dissolvability, proficiency, and activities adequacy and appropriate use of assets which additionally shows the pattern or correlation of budgetary outcomes that can be useful for dynamic for venture by investors of the organization.

To identify the financial position of Golf Clubs and ways through which positive modifications that could be made.

As mentioned by Nurlela and et. al., (2019), it contains exercises from activities that change the money of an organization has available. Changes in monetary position incorporate money outpourings, for example, capital uses, and money inflows, for example, income. It might likewise incorporate certain non-money changes, for example, devaluation.

To examine the different issues that can be faced by Golf Clubs while sustaining within the competitive business environment

As information given by Mursalim, Alamzah and Sanusi, (2015), there are a range of issues that came in front for different business organisations while sustaining within competitive business environment as Golf influences society and the earth, and has a duty to limit negative effects

and amplify positive benefits. Unlike all segments, golf's chance to mutually improve personal satisfaction and advance the biology of scenes reaches out far and profound.

## Methodology

Two approaches of scientific research methods are used as a methodology of this study, the first one is the Descriptive and analytical approach, and this approach has been used for the literature review to explore the impact of company profitability on the investment decision. The second Research Methodology Field has been used to cover the practical side of this study, through testing the validity of hypotheses of the study, and answering questions, and drawing.

## Study Population

The study population consisted of financial statements for three years for Golf Clubs Company.

## Study Tool

The study tool consisted on the analyses of profitability ratios.

## Analyses:

I have noted that the capital structure for the company is growing and the company profit in growing also over the last three years, in general, I can say that the company financial position is good and can meet the short and long terms liabilities without facing critical financial issues.

I will analyse the financial statements for this company to get a comprehensive image about the company strategy and vision and to know if it's good choice for investment or not, taking to my consideration as investment consultant that high gain is always associated with high risk.

## Gross profit

After reviewing the financial ratios of Callaway Golf Company, it's very obvious that the gross profit margin has increased by 97,921 in 2018 compared with 2017 and 95,437 in 2017 compared with 2016, possibly due to an increase in sales which usually increase the revenue and due to the reduction in operating cost. This change affects the profitability positively and it's a good indicator for the situation of the company.

## Operating Profit Margin

After analysing the operating profit margin I have noted that the operating profit margin has increased by .05% possibly due to an increase in operating profit and Sales with fewer expenses. When the operating margin is increasing, it means that the company is increasing sales and/or controlling costs (Yourbusiness.azcentral.com, 2018).

More likely that management took the right decisions to reduce the operating expenses which affected the product price positively to be sold at a lower price, and this led to more sales with more profit, thus, the gross profit margin has increased noticeably.

## Dividend Coverage

The dividend coverage remained the same (3 times) because the profit has been increased and the dividend paid to ordinary shareholders has increased on the other hand. The Company's common stock is listed and principally traded, on the New York Stock Exchange ("NYSE"). The Company's symbol for its common stock is "ELY." As of January 31, 2019, the number of holders of record of the Company's. The Company intends to continue to pay quarterly dividends subject to liquidity, capital availability and quarterly determinations that cash dividends are in the best interests of its shareholders. Future dividends may be affected by, among other items, the Company's views on potential future capital requirements, projected cash flows and needs, changes to the Company's business model, and certain restrictions limiting dividends imposed, the Dividends paid, net during 2016, 2017 and 2018 (3,788) (3,773) (3,764)

As a result of the consolidation, during the years ended December 31, 2018, 2017 and 2016, the Company recorded net income attributable to

the non-controlling interest of \$514,000, \$861,000, and \$1,054,000, respectively. During the years ended December 31, 2018, and 2017, the joint venture paid dividends to TSI of \$821,000 and \$974,000, respectively, which were recorded as a reduction in non-controlling interests in the consolidated financial statements. Total non-controlling interests on the Company's consolidated balance sheets and consolidated statements of shareholders' equity was \$9,734,000 and \$9,744,000 at December 31, 2018 and 2017, respectively Also, it didn't increase because the management decided to reinvest the profit in developing the capital instead of depending on debt finance (loans).

### **Price Earnings Ratio:**

The P/E Ratio has been increased due to an increase in the Share price and decrease in earnings per share. The share may be affected because of a speculations in the stock market. The confidence of shareholders (price-earnings ratio) has increased by 1.1 times due to the increase in the share price, and this led to more confidence by shareholders with the management decisions

“A high P/E ratio means that investors are prepared to pay a high price for one share in relation to the current earnings being generated. They would do this if they believe that the earnings and dividends are likely to grow at a significant rate in the future.

### **5.3 Earnings per Share:**

The decrease in the earnings per share (EPS) in the 2nd year was because of the reinvestment. This because more shares have possibly been issued to increase the capital and employ this money in developing the business. Therefore, the Number of an ordinary share in issue affected the earnings per share to be less by 2.02 cents but in 2018 the earning per share increased.

## Dividend Yield

The market value per share has possibly increased and the dividend per share has decreased, thus the dividend yield ratio has decreased from 2.02 to 1.11. The more dividend yield is the better and in Callaway Golf Company this indicator has decreased possibly due to reinvesting the profits in increasing the equity.

Dividend-paying stocks are like any investment. There is usually the good, the bad and the downright ugly. Higher yielding dividend stocks provide more income, but higher yield often comes with greater risk. Lower yielding dividend stocks equal less income, but they are often offered by more stable companies with a long record of consistent growth and steady payments

## Overall Assessment:

The overall assessment is that Callaway Golf Company is doing well in terms of marketing sales and managing the day to day work. However, certain procedure should be taken regarding managing the shareholder and distributing the profit. If it keeps following the same policies this may lead shareholders to less confidence with the management, thus investors will not choose to invest in it.

The investors always looking to receive their profit on regular bases and the company should meet their needs to maintain good capital to run its operations and achieve the goals, other than that the investors will going to invest in other business which will affect the stock price in the market.

### Overtrading:

I think that it's overtrading because sales have been increased without a corresponding increase in profit. Also, it's very obvious that there is a lack of capital so that Callaway Golf Company is trying to increase the capital by reinvesting the profits.

Also, there are some procedures have been taken to increase the cash flow, shortening the period of debtors and extending the period of payables is a clear indicator that there is a lack of cash and accordingly overtrading. Also, a low stock turnover ratio can be an indicator of overtrading.

Management should improve the existing system, balance debtors and creditors and control the cost.

X	yr1	yr2	yr3
EBIT	125,729.00	63,690.00	58,392.76
Net Profit	105,254	41,667	190,954
Equity	734,308	659,375	608,600
Debt	(2,186)	11,815	—
Interest Paid	(5,543)	(4,365)	(2,368)
Dividends Paid	(3,788)	(3,773)	(3,764)

When we spending money on certain investment it's important we work out if you're spending it on the right thing. This is important because we want to make sure there's value in spending the money.

After the investment appraisal, I can say that this company is a good choice for the long term investment and the investor will receive a good profit over the years.

The Callaway Golf Company cumulative total shareholder return is based upon the closing prices of Callaway Golf Company common stock on December 31, 2013, 2014, 2015, 2016, 2017 and 2018 of \$8.43, \$7.70, \$9.42, \$10.96, \$13.93 and \$15.30, respectively.

## Conclusion:

Investors should invest in Callaway Golf Company carefully. For short term investment, spectacular Investors, it would be risky and not profitable. However, it may suit the long term investors because they will be able to have their investment after 3-5 years. However, they should keep watching the news of the company and monitoring the performance. And check the strategy of the company for the coming years and the vision to make sure that the financial position of the company is good and they have a clear policy for the dividends complying with the investors needs and requirements.

With respect to all company achievements during the last three years that I will mention below:

Over the last three years, the company did good achievements due to the following points.

1. Improved the company ability to repay the short term financial obligations by 70.059.
2. Improves the ability of the company to settle its short-term liabilities from its readily convertible asset by 15. %
3. Increase speed and ease of inventory disposal by 1,052.92.
4. Increase the efficiency of receivables management and thus improve profitability by 6.34.
5. Improved inventory management in terms of ease and speed of discharge and conversion to sales
6. Easier collection of receivables.
7. Improved operational cycle processes and faster conversion of inventory to cash.
8. Lower financing risks and increase the long-term repayment capacity of the entity by ensuring the stability of other factors.

### **Results and recommendations:**

Based on the above mentioned report, it is being concluded that investors could effectively invest in the company that has been taken into consideration in this research. Basically, the reason that came in front was company has been generating high revenue and also if it is talked about the profit margins then from the last the years, company has gained ample number of advantages as well. Therefore, investing money would help investors to get appropriate returns on investments that will do in future context towards company's goals and objectives as well.

**Recommendations:**

In present context, specifically some of recommendations for company are presented underneath:

- It is recommended that it is needed for a company to focus on all the elements linked with their financial position like Balance Sheets, Cash Flow Statements, Income Statements, Shareholders equity statements and more. This would help every single investor to look among different aspects and then take right action in perfect time frame as well.
- Also, it is recommended for the business organisation is that money related experts can truly include an incentive in the assessment of the firm and its budget reports. The most widely recognized examination instruments are key fiscal report proportions identifying with liquidity, resource the executives, gainfulness, obligation the board/inclusion and hazard/advertise valuation.
- Away with this, frequently testing, money related experts must make sensible presumptions about the eventual fate of the firm (and its industry) and decide how these suppositions will affect both the incomes and the financing. This frequently appears as star forma fiscal reports, in view of methods, for example, the percent of deals approach.

## Reference list

### **Books and Journals**

- Mursalim, M., Alamzah, N., & Sanusi, A. (2015). Financial Decision, Innovation, Profitability and Company Value: Study on Manufacturing Company Listed in Indonesian Stock Exchange. *Information Management and Business Review*, 7(2), 72-78.
- Nurlela, N., Sulastri, S., AJ, U. H., & Hanafi, A. (2019). The Influence Of Investment Decisions And Financing Decisions On Firm Value With Profitability As Intervening Variables (Empirical Study On Companies Listed In Indonesian Sharia Stock Index). *International Journal of Multicultural and Multireligious Understanding*, 6(2), 447-456.
- Wahyudi, S. M., & Chairunesia, W. (2019). The Effect of Good Corporate Governance on Investment Decisions and Profitability and Its Impact on Corporate Value.
- Kieso, 2018: Intermediate accounting  
Fundamentals of Financial Management, Concise 7th Edition  
Richard G. Schroeder, 2017: Financial Accounting Theory and Analysis - 12th.
- Risk perception can be defined as “people’s beliefs and feelings within their social and cultural context” (Steel and Guest, 2006, p.552).
- David Evans (2018) ‘Financial Analysis and Management Jordan 2018’. Slides 37, 40, 41 (Gearing ration M & M’s theory) Available at: [https://breo.beds.ac.uk/bbcswebdav/pid-3116905-dt-content-rid-16010093\\_1/courses/17-18SEM2IDAPO004-6/FAM%20Jordan%20revised%202018.pdf](https://breo.beds.ac.uk/bbcswebdav/pid-3116905-dt-content-rid-16010093_1/courses/17-18SEM2IDAPO004-6/FAM%20Jordan%20revised%202018.pdf) (Accessed: 10 July 2018).
- Haug, A. and Busch. J. (2016) ‘Towards an ethical fashion framework’, *Fashion Theory*, 20(3), pp.317-339.

### **Online**

- Bragg, S. and Bragg, S. (2018). Which financial statement is the most important?. [online] AccountingTools. Available at:

- <https://www.accountingtools.com/articles/which-financial-statement-is-the-most-important.html> [Accessed 17 Jul. 2018].
- DemonstratingValue.org (2018) Financial Ratio Analysis, Page 1, [online] Available at: <https://www.demonstratingvalue.org/sites/default/files/resource-files/Financial%20Ratio%20Analysis%20Dec%202013.pdf> [Accessed: 17 July 2018]
- Kokemuller, N. (2018). What Does It Mean When Operating Income as a Percent of Net Sales Increases Each Year?. [online] Yourbusiness.azcentral.com. Available at: <https://yourbusiness.azcentral.com/mean-operating-income-percent-net-sales-increases-year-23559.html> [Accessed 15 Jul. 2018].
- McClure, B. (2018). Spotting Profitability With ROCE. [online] Investopedia. Available at: <https://www.investopedia.com/articles/stocks/05/010305.asp> [Accessed 17 Jul. 2018].
- Pietersz, G. (2018). Debtor days. [online] moneyterms. Available at: [https://moneyterms.co.uk/debtor\\_days/](https://moneyterms.co.uk/debtor_days/) [Accessed 17 Jul. 2018].
- Wigerfelt, B. and Wigerfelt, A. (2015) 'Anti-Gypsyism in Sweden: Roma's and travellers' experiences of bias-motivated crime, Internet Journal of Criminology (February). Available at: [http://www.internetjournalofcriminology.com/Wigerfelt\\_And\\_Wigerfelt](http://www.internetjournalofcriminology.com/Wigerfelt_And_Wigerfelt)

## PDF Online

- World Anti-Doping Agency (2016) Prohibited list. Available at: <https://wada-main-prod.s3.amazonaws.com/resources/files/wada-2016-prohibited-list-en.pdf> (Accessed: 7 July 2016).
- Stroke Association (2011) Life after stroke. Available at: [http://www.stroke.org.uk/information/stroke\\_rehabilitation/index.html](http://www.stroke.org.uk/information/stroke_rehabilitation/index.html) (Accessed: 26 July 2011).
- Ratio Analysis – Gearing Available at: [https://www.youtube.com/watch?time\\_continue=391&v=nwrutKvKE98](https://www.youtube.com/watch?time_continue=391&v=nwrutKvKE98) (Accessed: 7th July 2018).