

A Tortoise and a Hare of Medical Equipment:

A Financial Statement Analysis of Two Companies During the COVID-19 Pandemic

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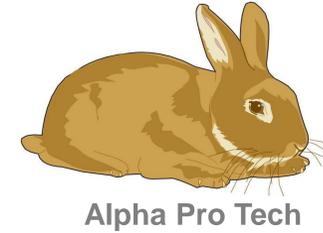
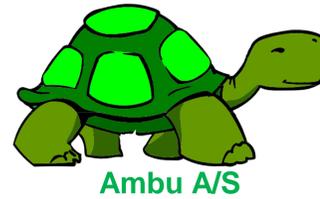
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Masks and Endoscopy Equipment Producers Finding Increased Demand During COVID

"3M profit jumps as world masks up for coronavirus"
-Reuter.com

"Endoscopy works during the pandemic of coronavirus COVID-19: recommendations by the Chinese Society of Digestive Endoscopy"
-U.S. National Library of Medicine



Expanding Customers, But Not In Time

Ambu did not take advantage of the pandemic in terms of increasing sales outside of Europe, seeing a 1.78% decrease in international sales as a percentage of total sales from 2019 to 2020. A new manufacturing plant is being built in Mexico to boost international sales, but will not be finished until 2022, after COVID is likely resolved and demand is at normal levels



Prioritized Reliable Delivery

"...we have been able to keep up with demand, although for single-use bronchoscopes we were forced to shift from sea to air freight from late Q2 and for the rest of the year to keep up." -Ambu on 2020 annual report. This led to a 61% increase in shipping costs in 2020 for Ambu.



New Equipment Unchanged For COVID

R&D spending increased 80% but was spent on pre-planned products that are not tailored to the COVID environment



Safe Product Line That Limits Potential Growth

As focus shifted in Q1 towards COVID, Ambu's Patient Monitoring and Diagnostics Products suffered, seeing a 10% decrease in sales, slightly offsetting their 82% growth in Visualization products.



Greatly Expanded International Sales

APT benefited from increased demand outside of the United States, most notably in Australia. International sales as a proportion of total sales grew by 9.91% from 2019 to 2020.



Prioritized Sales With Unreliable Delivery

"Disruptions in the supply chain as well unpredictable changes in the response to the COVID-19 pandemic have created uncertainty in the timing of deliveries and fulfillment of backlogged orders. Some orders may ultimately be cancelled due to unavoidable delays and changing circumstances." -APT 10-K Distribution section



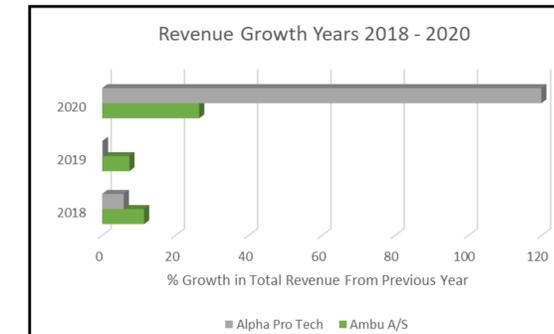
Changed Production For COVID

"The disposable protective garments line sales increased an impressive 23.7% in 2020 and the Company's joint venture, Harmony, has ramped up production capacity to facilitate our current higher than historical open orders." -APT 10-K Disposable Protective Apparel Segment

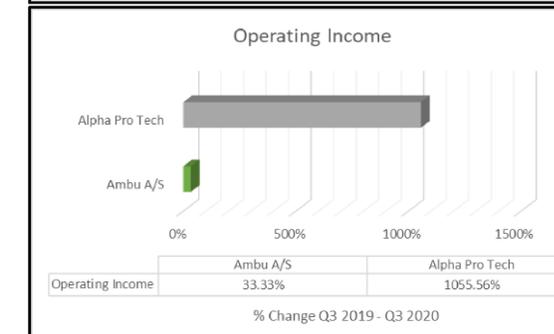


Product Line Is Riskier But Has Higher Potential

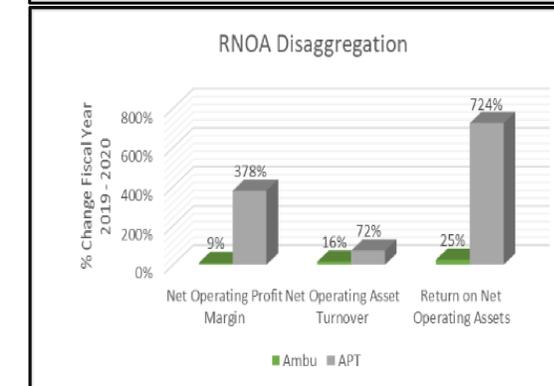
Two unrelated products enables uninhibited growth, but no security in the event one suffers



Revenue Growth was steady for both companies leading up to 2020. Ambu is a more developed company, being both larger in size and older in age, which gave it more stable revenue growth leading up to 2020. Because of Alpha Pro Tech's expansion of foreign customers and aggressive attempts to meet demands, they were able to achieve growth of over 100%, more than doubling their past year's sales. Ambu's growth is much tamer in comparison, due to their spreading of resources to future products and less aggressive production. It's also likely that Alpha Pro Tech's relatively small size gave them a bit more room to grow.



We already noticed a large difference between the two companies when examining sales, but this issue is only compounded when we examine operating income. Although Ambu achieved higher sales than normal, this was offset largely by its 61% increase in shipping costs, significantly lowering its profit margin. Meanwhile, Alpha Pro Tech got to make use of its phenomenal profit margin on mask products to achieve ridiculous growth of over 1000%. More on their profit margins will be discussed in the next graph.



Diving in specifically on the operating aspect of these companies' performance, we see Alpha Pro Tech blowing Ambu out of the water in all categories. Notably Alpha Pro Tech's Operating Profit Margin is reflecting a lot of the numbers, with a 378% increase over last year's. This comes from their transition to manufacturing more face masks instead of the building supplies they were producing last year. This radical change in profit margin is what enabled them to push their operating income to such record-high levels. It is also worth noting that Alpha Pro Tech's low-cost adaptation of manufacturing helped give them a larger asset turnover as well.

Intro

During COVID, most companies were struggling to endure the many hardships brought on by the disease. However, companies fortunate enough to have already been producing face masks and endoscopy equipment found themselves in a favorable situation with increased demand for their products. Two such companies are Ambu A/S and Alpha Pro Tech. Ambu A/S is a Denmark-based company who produces medical equipment in the visualization, anesthesia, and patient monitoring categories. Alpha Pro Tech is an American-based company that produces building supply and face masks, often for construction purposes. Although each of these companies experienced increased demand and sales, the way they responded was very different. In the center graphic, we explore some of the different decisions that Ambu and Alpha Pro Tech made, while on the right side we explore some of the short-term consequences of these decisions.

Methods

We selected Alpha Pro Tech and Ambu A/S for our examination for a few reasons. Each of these companies produce a relatively small variety of products, making it easier to identify which products were affected by COVID and establish a positive correlation between COVID and their increased profits. After we had decided to investigate these companies further, we took a close look at their financial statements, specifically their 2020 10-Ks, where we focused on their income statements, balance sheets, and management discussion notes. From these financial statements, we gathered data on revenue and profitability, especially in operations, and examined special expenses incurred for COVID-related reasons. We also utilized horizontal and vertical analysis to compare data surrounding revenue growth, operating income, and to perform an RNOA disaggregation.

Conclusion

- **APT made much greater short-term profits**
- **Ambu focused spending on improving their post-COVID condition**

Both could be the right answer for their respective products. However, the effectiveness of Alpha Pro Tech's short-term focus is hard to argue. We'll have to wait until post-pandemic times to see whether Ambu was a wise tortoise or missed out on its best chance to win.

References

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Ambu A/S. 2019/2020 Annual Report, . Web. March 31, 2021
Chai, Ningli, et al. "Endoscopy Works during the Pandemic of Coronavirus COVID-19: Recommendations by the Chinese Society of Digestive Endoscopy." *United European Gastroenterology Journal*, U.S. National Library of Medicine
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