



# *American Home Products Corporation*



# Introduction

APH is a American based pharmaceutical company which is otherwise known as American Home Products Corporation and the company is not very adventurous financially. The firm's management strategy aims at avoiding or reducing risks, controlling expenses more especially on research and development, and seeking to acquire more firms to ensure that it does not loses many of its customers.





# *Financial Strategy*

The financial risk management of AHP can also be termed as conservative because of its low D/E ratio where it depends mostly on internal sources to finance its operation. The company doesn't leverage on external financing and also has a preferential focus on generating cash from its operations.





# Reward Analysis

The cost of capital of AHP is lower with high leverage more because interest expenses are tax deductible, which means that AHP can earn higher returns by taking more debt. However, with leveraging there comes odds of facing a major issue such as bankruptcy and the fact that one has to ensure they provide cash flows to support the debt.





# Conclusion

The American Home Products Corporation was a strategic management case, which provides a realistic dilemma between achieving a low-debt philosophy or taking risks by adopting financial leverage to maximize shareholders value. The decision making at AHP should rely on its risk taking capability, market dynamics and future growth opportunities for taking any decision.





# RESOURCE

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