

Financial analysis and report of dominos pizza finance essay



**ASSIGN
BUSTER**

This report is commissioned to analyse the current and previous Short-Term Liquidity, Capital Structure and Solvency, Operating Efficiency and Profitability of Dominos Pizza Group Limited. The method used in analysing includes, current ratios, liquidity ratios, profit margin, gross margin, return on capital employed, gearing ratio, interest cover, stock turnover, debtor days and creditor days.

The results of the analysis depicts that Dominos Pizza Group limited is operating well with consistent growth in turnover, profit margin but with a very high gearing ratio.

The major areas of concern are the stock turnover, debtor days and creditor days which need effective and efficient management. Therefore it is recommended that the collection period for debtors and the payment period for creditors and the stock turnover should be monitored and improved.

The analysis also has its own limitations which includes the unavailability of comparative information from the mirror company, SHS pizza Limited.

Analysis

Short-Term Liquidity

Current Ratio(x)

Company

2009

2008

2007

Domino's Pizza

0.69

1.01

0.92

SHS Pizza Ltd

0.18

0.22

1.29

This provides the portion of the current liability of Dominos Pizza Group which can be settled with its current assets earnings. This shows the ability of Dominos to meet its short-term debt contracts with the available current liability as the fall due.

From the above table, Dominos Pizza Group had a current ratio of 0.69 in 2009 as compared to the 1.01 and 0.92 in years 2008 and 2007 respectively. The 0.69 in year 2009 shows that Dominos is not liquid enough to meet its short term debt obligations as at 2009 despite it being better than the SHS Pizza Ltd at 0.18 times in the same year. With its brilliant performance in year 2008 at 1.01times, in 2007 it went slightly below its ability to cover the current liability with its current assets at 0.97 times unlike the SHS Pizza ltd which had a better performance in ratio of 1.29 times in 2007. (Tracy J, 2008 P287).

Liquidity Ratio

Company

2009

2008

2007

Domino's Pizza

0.64

0.97

0.85

SHS Pizza Ltd

0.12

0.16

1.17

The ability for Dominos Group to repay short-term creditors out of its available total cash is less than the general threshold of 1.00. In 2007, Dominos had a liquidity ratio of 0.85 and increased to 0.97 in 2008 but fell drastically in 2009. Comparatively, its mirror company, the SHS Pizza limited performed better being able to cover its short term liabilities fully by 1.17x

in 2007. However, SHS Pizza Ltd also had a drastic fall from 1. 17x in 2007 to 0. 16x and 0. 12x in 2008 and 2009 respectively. (www. advfn. com)

Capital Structure and Solvency

Gearing (%)

Company

2009

2008

2007

Domino's Pizza

413. 87

321. 59

435. 34

SHS Pizza Ltd

988. 47

665. 44

175. 68

From the balance sheet of Dominos plc, it can be seen that it had a long term debt of 18million in 2007 which reduced further to 9million in 2007 and was eventually cleared in 2009. On measuring the amount of capital that is

<https://assignbuster.com/financial-analysis-and-report-of-dominos-pizza-finance-essay/>

borrowed, the gearing ratio for Dominos Pizza as at 2007 was 435.34% falling slightly to 321.59% and 413.87% in 2008 and 2009 respectively. With this high gearing, it indicates that the proportion of Dominos group borrowed capital is high. However its mirror company, the SHS Pizza Ltd had a reasonably lower gearing ratio of 175.68% in 2007 increasing significantly to 988.47% in 2009. These figures show how prone both Dominos Group and SHS pizza Ltd is to financial distress. Borrowing is a risk to Dominos because of the associated high interest payables and therefore Dominos will be in a dangerous position if the interest rate increases. (www.bized.co.uk).

Interest Cover

Company

2009

2008

2007

Domino's Pizza

62.00

30.25

41.72

SHS Pizza Ltd

n/a

n/a

n/a

Talking of interest, the interests cover for the Domino's group has improved significantly over the last three years. In 2007 it had 41.72x but dropped to 30.25x in 2008, it later got better in 2009 with a 62x cover. This is a good indicator that Dominos group is able to pay its interest with its available operating profit. This significant improvement could be as a result of effective control of Domino's expenses and the consistent increase in turnover of 92,018 in 2007 to 128,076 in 2009. (www.bized.co.uk).

Operating Efficiency

Stock Turnover

Company

2009

2008

2007

Domino's Pizza

54.99

52.07

44.67

SHS Pizza Ltd

n/a

n/a

n/a

As at 2007, Dominos Pizza plc had a stock turnover of 44.67 days. It began to increase to 52.07 days in 2008 and again increased further to 54.99 days in 2009. This means that it is holding stock for longer than the previous years and could consequently increase the cost for holding these stocks. It is therefore important that the Dominos Pizza Group improves on its stockholding period so as to reduce its associated costs. All other things being equal, as Dominos products is food and can easily spoil, it is necessary that the stockholding period be reduced to avoid bulk waste of products and as a result material costs.

Debtor Collection (days)

Company

2009

2008

2007

Domino's Pizza

7.34

11. 11

14. 71

SHS Pizza Ltd

n/a

n/a

n/a

Dominos Pizza was able to get cash from its debtors within 14. 71 days in 2007, in 2008 it was able to retrieve 11. 11days whereas in 2009 was 7. 34 days. From the above table, Dominos Group has been able to maintain a healthy improvement in its debtor's collection days from 14. 71days in 2007 to 7days in 2009. It is therefore important that customers of Dominos Pizza pay earlier so that this can be used to pay-off it trade creditors on time as well.

Creditors Payment (days)

Company

2009

2008

2007

Domino's Pizza

23. 84

21. 54

21. 40

SHS Pizza Ltd

n/a

n/a

n/a

Dominos Pizza Group has been able to maintain a longer period in paying of its creditors. In 2007, it took about 21. 40 days for Dominos Group to pay of its creditors. This further increased to 23. 84 days in year 2009. If Dominos is able to get more credit period, it will be able to use the available funds to maintain growth until the payment period is dew. Despite it being a good business practice for Dominos Group to get longer payment period in settling its debt, it is also ethical that it pays it debt on or before time.

Profitability

Turnover

The Domino's Pizza has sustained turnover growth for the past three years rising from 92, 018 in 2007 to 128, 076 in 2009. The turnover is entirely the sale made from the United Kingdom with a zero sales from overseas for the whole three years. The increase in sales was basically due to a higher

demand of Dominos Pizza in the UK whereas the Zero sales in the overseas is as a result of unawareness of the Dominos Pizza in the overseas.

Profit Margin (%)

Company

2009

2008

2007

Domino's Pizza

24. 05

18. 43

18. 32

SHS Pizza Ltd

n/a

n/a

n/a

[www. fame. bvdep. com](http://www.fame.bvdep.com)

From the table above, the Dominos Pizza has been able to maintain a profit margin of 18. 32% in 2007 and growing further to 24. 05% in 2009. This is as

a result of the efficient control of the cost of sales and other expenses like the administration expenses for the past three years plus an outstanding increase in revenue from 92, 018 in 2007 to 128, 076 in 2009. (Kimmel PD, et'al (2008) Accounting p243).

Gross Margin (%)

Company

2009

2008

2007

Domino's Pizza

41. 05

39. 74

39. 94

SHS Pizza Ltd

n/a

n/a

n/a

Similarly, changes in the gross margin will be as a result of changes in the Dominos Pizza group turnover and cost of goods sold. From the above table

<https://assignbuster.com/financial-analysis-and-report-of-dominos-pizza-finance-essay/>

and diagram, we can see that the year 2007 had a gross margin percentage of 39.94% slightly dropped to 39.74% in 2008 and later rose to 41.05% in 2009. The cost of sale comprised of 60.6% in sale as at 2007 and a 59% in 2009.

In the same period there was no information disclosed for public use for its mirror company, the SHS Pizza.

Return on Capital Employed (%)

Company

2009

2008

2007

Domino's Pizza

112.58

149.71

418.60

SHS Pizza Ltd

n/a

n/a

n/a

In 2007, Dominos Group had a good return on capital employed of around 418.60%. Despite the slight reduction, it continued to maintain a higher than 100% ROCE in the years 2008 and 2009 with 149.71% and 112.58% respectively.

However using the ratio pyramid, the product of net assets turnover and the profit margin will give us the Return on Capital Employed. This is depicted in the table below;

Calculation of the Return on capital employed

2009

2008

2007

Net Assets Turnover

4.68

8.12

22.85

Profit Margin

24.05

18.43

18.32

Return on Capital Employed

112. 55

149. 65

418. 61

Here, any change on the return on capital employed comes as a result of change in either the net assets turnover or the profit margin. From the above, it is the constant fall in the net assets turnover from the 22. 85 in 2007 to 4. 68 in 2009 which contributed to the fall in the ROCE from 418. 6% in 2007 to 112. 5% in 2009. On the other side, the profit margin continued to maintain improvement.

The averagely high performance in ROCE indicates that, Dominos make good use of its assets well in profit creation. (Bedward and Strdwick 2004 p53)