Wm morrison supermarkets plc

Sociology, Shopping

Introduction

Wm Morrison is a well known leading supermarket in the UK with over 400 stores as well as being listed in the FTSE 100 market. Acquisitions and mergers play a big role in the success of various companies across the globe only if the acquisition being made is of good performance (Leepsa, & Mishra, 2013, p. 40).

The factors to be considered in the case of Wm Morrison acquisition vary from political, social, economic and even environmental factors as well as the financial factors of the business. OneStop supermarkets is facing a lot of problems and hence the need for the acquisition of the Wm Morrison so that it can enhance its performance. The need for acquisition has been brought about by the reasons that OneStop PLC has been staggering in terms of performance which to a greater extent has been as a result of poor product portfolio that meets the needs of the customers of the company (Depamphilis, 2011, p. 29).

The other issues which have prompted the need to acquire new business are due to the reason that OneStop have faced a lot of criticism which has not been good for the image of the business (Leepsa, & Mishra, 2013, p. 39). Various accusations have been laid against the company that it does not allow its employees to have union representation, allegations ofracismwithin the company, and issues of lowhealthinsurance rates for the employees of the company (Sherman, & Sherman, 2011, p. 155). The various accusations which have been made have greatly affected the business hence the need to make new acquisition so that the business can be able to meet its objectives.

The other motives which have propelled to the idea of the acquisition of the Wm Morrison is because Morrison PLC is nearly the same match as the OneStop in terms of the particular skills involved in the running of the business and the various capabilities which are need to conduct the business (Sherman, & Sherman, 2011, p. 157). The various skills and capabilities which are available at Morrison will help in boosting the target value of Morrison and also assist in increasing the sales of the company beyond the performance of OneStop PLC when it is on its own.

This implies that the acquisition of Morrison will boost the image, the performance and the long run stability of OneStop PLC and help it achieve its main objectives (Katz, 2013, p. 20). The other motive which influence the need for the acquisition of the Wm Morrison is the reason that when the two companies are combined together, OneStop will help in reducing the targeted predictions on the cost of sales of the companies whereby the ratio of sales to sales will be reduced by about 0. 7% while that of the administrative costs to sales ratio will be reduced by about 15%. The need to diversify and improve the image of OneStop Ltd has also led to the need for the acquisition of the Wm Morrison.

From previous researches which have been conducted on acquisitions and mergers it has been observed that there are various factors which companies must put into consideration whenever they plan to make an acquisition or even merge with another company (Sherman, & Sherman, 2011, p. 158).

Political

When planning to make an acquisition, especially in a different country from where the main company is, there is need to consider the political atmosphere where the company or business to acquired operates in. Political stability is of great importance since it determines how a business will operate in addition to whether the business will be able to survive in that particular country (Sherman, & Sherman, 2011, p. 159).

Legal

There are various legal aspects that influence businesses that must be considered when acquiring, starting or even merging with other businesses (Bruner, 2011, n. p). The legal structure within the UK must be able to support the acquisition of the business so that the acquisition can be of any benefit to OneStop PLC.

EconomicEnvironment

The competition within the business environment must be considered to find out whether the business is able to cope with the competition or not and whether the competition is fair enough for the survival of the company to be acquired.

Financial Performance

Researches that have been conducted also suggest that it is important to consider the financial performance of the company to acquire since that is of great importance (Bruner, 2011, n. p). A company that is not performing well may be a greater risk which may affect the acquiring company.

In the case of Morrison, its share prices have been not been constant which means that the shares of the company in the stock market may not be good performers although it has maintained a mark of between $2. 5 and $3. The company is also rated as one of the leadingfoodretailer in the UK, which is quite a good thing for a business since it means the company is able to fight stiff competition. The previous research also adds that the performance of the company helps to identify whether the company is profitable or simply a losing company (Bruner, 2011, n. p). It helps to determine the worth of the company hence it is important the financial performance is considered when wanting to make any acquisition

Research that has been previous conducted show that the food retail industry has grown quite a lot and people have come to appreciate the industry in a big way (Sherman, & Sherman, 2011, p. 159). There have been great developments in the industry in terms of the products that are being offered as well as the number of competitors in the industry have also increased. People have become more conscious of what they eat in the food industry with any of them moving towards healthy eating habits hence influencing the industry to adopt healthy food product portfolios (Katz, 2013, p. 20). The deal may fail to deliver results due to the strong competition that exists in the UK market as well as the major shareholders of Wm Morrison may not be willing to let go of the company unless they are offered to an attractive bid.

Valuation

When wanting to acquire another business as part of the expansion program for any given company, it is important for a valuation of the company to be acquired to be done.

In the case of OneStop Ltd, it is important to conduct a valuation of the Wm Morrison supermarkets and determine whether the acquisition will be of value to OneStop or it will be a waste ofmoney. In this case, it is to be assumed that the financial statements of Wm Morrison are accurate and no other adjustments are required on them (Cooper, & Finkelstein, 2011, p. 1).

The information to be used in this valuation will be obtained from the income statement, the balance sheet as well as the cash flow statement, with regard to the last two years, 2012 and 2013. The most important aspects to be considered are the profitability of the company, the liquidity status of the company as well as the return on investment for the shareholders (Cooper, & Finkelstein, 2011, p. 1). This will require an analysis of the ratios of the company to determine if it is a profitable investment or not.

Valuation Calculations

Ratio Analysis

This is done to simply determine the profitability of the company as well as the ability of the company to perform and meet its main objectives. The tables below illustrate the ratio analysis for year 2012 and 2013 as the most recent years of business for Wm Morrison. Figures adapted from: (http://finance. yahoo. com/q/is? s= WM+Income+Statement&annual)

Particulars	DATA IN MILLIONS OF GBp

	2013	2012
Total Revenue-Sales	13, 983	13, 649
Cost of Sales (COGS)	9, 112	8, 879
Net Income	98	817
Gross Profit	1, 206	1, 217
Inventory	780	759
Cash	265	241
Total current liabilities	3, 014	3, 036
Total Current Assets	1, 342	1, 322
Long Term Debt	2, 389	1, 593
Total Equity	5, 237	5, 397
Total Assets	10, 527	9, 859

Year 2013

Ratio Type	Formula	Calculation in Million $	Ratio
Current Ratio	Current Assets/Current Liabilities	1, 342/3, 014	0. 44
Debt to Equity Ratio	Total Debt/Total Equity	2, 389/5, 237	0. 45
Inventory Turnover	Sales/Total Inventory	13, 983/780	17. 93
Profit Margin	Net Income/Sales	647/13, 983	0. 05

Year 2012

Ratio Type	Formula	Calculation in Million $	Ratio
Current Ratio	Current Assets/Current Liabilities	1, 322/3, 036	0. 44
Debt to Equity Ratio	Total Debt/Total Equity	1, 593/5, 397	0. 3

Inventory Turnover	Sales/Total Inventory	13, 649/759	17. 98
Profit Margin	Net Income/Sales	690/13, 649	0. 05

From the above figures, the profit margin of the company for two consecutive years is about 5% which is quite low although it is not making losses. The debt to equity ratio of the company increased in 2013 to 0. 45 hence meaning that the company acquired more debts although it is still below the recommended rate of 1. The low current ratio indicates that Wm Morrison may not be in a position to meet all its financial obligations when they are due and in good time due to negative working capital.

The benefit of this ratio analysis method is simply helpful in determining whether a company that is to be acquired makes profits. The main objective of businesses is to make profits hence acquiring a company that does not make profits is quite risky. Furthermore, this method of valuation helps to ascertain whether a company to be acquired is capable of meeting its financial obligations or it will be an added burden to the acquiring company.

Tangible Book Value Method

Using the tangible book value method of valuation is the calculation based on the total assets of the company less the liabilities of the company to obtain the net assets. This means that it is the net assets of the company although if there are preferred stocks then also should be subtracted. Tangible book value will also involve deduction of the intangible assets from the net assets of the company as illustrated in the figures below

	AMOUNT IN MILLIONS OF US DOLLARS		
Item	2013	2012	2011
Total Assets	22, 603	23, 097	22, 569
Total Liabilities	16, 896	16, 743	16, 499
Preferred Shares	0	0	0
Net Assets	5, 707	6, 354	6, 070

	AMOUNT IN MILLIONSOF US DOLLARS		
Item	2013	2012	2011
Total Assets	22, 603	23, 097	22, 569
Intangible	529	397	457

assets			
Liabilities	16, 896	16, 743	16, 499
Tangible Book Value	5, 178	5, 957	5, 613

The benefits of the tangible assets value method of valuation is that it makes it possible to ascertain whether there are any assets which can be sold or converted to cash in case of liquidation due to financial problems.

Net Current Assets Value

The other method of valuation that can be used is the Net Current assets Valuation which simply involves the use of the current assets of the company to be acquired, in this case Wm Morrison and the total liabilities of the company as illustrated in the table below (figures adapted from: http://finance. yahoo. com/q/bs? s= WM+Balance+Sheet&annual)

	AMOUNT IN MILLIONSOF US DOLLARS		
Item	2013	2012	2011
Current Assets	2, 499	2, 423	2, 379

Total Liabilities	16, 896	16, 743	16, 499
Net Current Assets Value	-14, 397	-14, 320	-14, 120

This value is used to measure the liquidity of Wm Morrison whereby it gives an estimate of the amount of finances or cash that the company can be sold at in case the company was to go out of operation or business. The assumptions made are that the values or figure obtained from the various financial statements of the company are accurate and no alterations have been made on them. From the above valuations conducted on Wm Morrison, it may not be a good form of investment although there are other influencing factors which need to be considered such as he reasons for the acquisition. If the reason for the acquisition is not to maximize profits, then Wm Morrison is a better option to acquire.

Financing Alternative

Businesses need various resources for the company to be able to survive and achieve the main objectives as well as fulfil the missions of the company. This means that for any business to succeed, it must have sufficient and the necessary resources that will enable it to fully operate and make profits in the long run (Cooper, & Finkelstein, 2011, p. 4).

One of the main resources that every company needs for it to be able to operate fully and make profits is the financial resources. The financial resources are relevant and of great importance to any business because all decisions within any given company or organization will highly depend on the finances of the company (Leepsa, & Mishra, 2013, p. 39). Financial resources are the main determinants of whether a company will expand or simply reduce its operations. In acquisitions and mergers, financial resources are important because they help to identify how a company will be able to finance its operations and meet all its objectives in the long run (Katz, 2013, p. 20).

When a company such as OneStop wants to make an acquisition such as Wm Morrison, the management must be able to analyze and identify the various financing alternatives that the company can use to obtain Wm Morrison. There are different financing options which are always available for businesses when they are considering ways of financing their operations or any other activity that is beneficial to the company (Cooper, & Finkelstein, 2011, p. 19). In the case of OneStop, the financing alternatives that it will need to consider as a way of financing its acquisition of Wm Morrison will include the following: business loans, issuing of equity/commercial bills, and government loans and incentives.

Business Loans

This is a financing option that OneStop Ltd may take which will involve obtaining loans from a financial institution so that it can finance the acquisition. This will require that the company must have some form of collateral for it to secure the loans from the financial institutions. This is quite risky if the company does not have enough assets that can secure the loans (Cooper, & Finkelstein, 2011, p. 10). In addition, the interest rates involved in repayment of loans from financial institutions are always high hence this is not quite a recommendable option for OneStop Ltd.

Issuing of Securities/Commercial bills

Companies, especially large companies can opt to issue securities to shareholders so that it is able to raise finances for financing its projects such as in the case of OneStop. This option requires that the company must be listed in the stock market of the country of origin so that it can be able to trade its securities (Cooper, & Finkelstein, 2011, p. 19). This is one option that is recommendable because the company is not required to repay back the money immediately but instead give shares of the company to other shareholders.

The issuing of securities requires quite a long process and considering the performance of the company at the moment, it will be quite a hard task for OneStop to obtain sufficient finances from this financing alternative (Lee, 2013, p. 22). Investors prefer well performing companies and in this case, securities of OneStop hold a lot of risks that may not attract investors.

Government Loans/Incentives

In many countries across the world, governments have policies that support businesses and one of those policies involve offering incentives or loans to companies or organizations which want to set up or expand businesses (Cooper, & Finkelstein, 2011, p. 8). The loans or incentives offered are always of low interest rates hence quite accommodating for businesses. This is an option that OneStop can consider in its quest to raise finances for the acquisition of Wm Morrison.

Leasing

When a company has quite some assets which it is not making use of, a company has an option of leasing out the assets so that it can obtain finances (Cooper, & Finkelstein, 2011, p. 11). This is done for a period of time after which the company can retrieve the assets after the end of the lease period. It is quite a better option because the company does not have to incur any costs in terms of interests to be paid out (Carroll, & Chung, 2009, p. 17). The finances from leasing may not be sufficient because may be the company do not have enough assets that can be leased for larger amount of finances to make the acquisition.

Selling of Assets

A company or an organization can also raise finances for its projects through the sale of its assets, especially the assets which the company does not require in its operations. This may include the disposal of some of the fixed but movable assets of the company and to some extent the current assets of the company.

In the case of OneStop, selling of assets may be the last resort because the company is not currently performing well and hence selling assets cannot be the first option (Cooper, & Finkelstein, 2011, p. 17). From the above analysis of the various methods or ways of raising finances, the most suitable option for OneStop to obtain finances so that it is able to finance the project of acquiring the Wm Morrison Supermarkets is to obtain business loans as well as obtain government grants or incentives for wanting to expand its business (Perkin, 2012, p. 52). Obtaining business loans and grants or incentives from the government offers the company a quicker means of obtaining the finances and the amount that the management of the company have assessed and ascertained will be sufficient for the acquisition.

Recommendations

From the above report and the consideration of various issues which have been mentioned in this report, it is recommended that:

1. The management should do a thorough background check of Wm Morrison to find out why there has been decline in the performance of the company
2. Complete and physical valuation of the Wm Morrison needs to be done because the financial statements may not be very reliable

- The management should ascertain the exert market value of the Wm Morrison shares in the market

1. The management needs to ascertain the amount of resources that will be needed to finance the acquisition.
2. Last but not least it is recommended that the management should consider acquiring the Wm Morrison if the owners will agree to a fair price that OneStop PLC will offer.

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