

Financial position and performance of ted baker plc essay sample



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The following document analyses the financial performance and position of Ted Baker Plc over the last four fiscal years (2010 to 2013) using ratio analysis. The Appendix provided shows the balance sheet, income statement and calculated and graphical representation of the ratio analysis.

Overview of 2010-2013 Results:

Profitability: The company has shown good profitability over the years and has been a top performer in its peer group. 2012 saw a shift in revenue mix generated from wholesale vs retail (wholesale % increased) which along with expansion and promotional activities overseas, saw a small decline in overall profitability. This then improved in 2013. **Efficiency:** Inventory Turnaround Period has steadily increased due to stocking of inventory to meet growth and demand overseas which resulted in increased capital expenditure. It is also well above the average inventory turnaround period of industry peers. Trade payable pay-outs and trade receivable receipts have remained steady and asset turnover is steadily increasing. **Liquidity:** Decreasing trend in liquidity ratios.

The CURRENT ratio is still close to the industry peer average. However in 2012-13 high short term borrowing and increase in inventory to meet demand and growth has resulted in the ACID TEST ratio to fall below 1 which is well below the industry peers. There is also a negative cash flow in 2012-13. The company should look into financing some of its capital requirements from its reserves and start reducing the inventory stock. **Gearing:** The GEAR and INTERST COVER ratios are good with respect to industry peers as well. Most of the company's expansion activities are financed from short term

borrowings rather than reserves or equity funding. Investments: The company has paid out regular and steady dividends over the period. The DIVIDEND YIELD and DIVIDEND COVER ratios are good. Good performance, good EPS and a promising outlook has resulted in investors and the market showing confidence in the company which is reflected in good PE ratios.

Brief SWOT and PESTEL Analysis:

Ted Baker PLC's aim outlined is " to become a world leading designer lifestyle brand " and the strategy to achieve this is

- 1) Consider expansion of collection.
- 2) Control distribution through three main channels - retail, wholesale & licensing.
- 3) Carefully manage development of existing and new international markets.

Strengths:

Strong brand name

Niche market in high end fashion

Geographical diversity

Good quality

On trend designs

Very strong visual merchandising

Sells women's wear, menswear, children's wear, accessories, bags, shoes, fragrance beauty, teds grooming. Recently home fragrance Openly promotes

Ethical and Sustainability policies

Offers 15% student discount

Shop online and in store, has concessions. worldwide

Excellent customer services

Weakness:

Escalating debt

Cash flow cycle

Distribution competency

No advertising

Limited size range

No maternity range

No teenage range

Opportunities

Global expansion plan

New market exploitation

Online sales in developing markets

Traditional marketing

Fast changing fashion trends

Sportswear range

Further worldwide expansion

Mobile app for more social interaction

Rewards program

Ladies grooming

Threats:

Strong competition locally and internationally

Changes in labour/wage laws

Competitors are cheaper

Competitors have more ranges

Recession

Strategic PESTEL Analysis:

In order to fulfil the strategic aims, a PESTEL analysis was conducted in 2014 and summarised as follows:

Political:

Political environment is quite stable in regions where the group operates

(aim 3) No apparent effect on religion (aim 3)

Economical:

Economic uncertainty (aim 2)

Reward package to keep the talented within the company (aim 3) Social:

Demand for recyclable clothes (aim 1)

Social media marketing (all 3 aims)

Change in fashion trends (aim 1 & 3)

Technological:

Strong growth in online activities (aim 2 & 3)

Upgrade online security to safeguard growing online customer base (aim 2 &

3) Online & social media marketing (all 3 aims)

Legislative:

Corporate tax rate reduction UK (aim 3)

Change in labour/wage laws (aim 3)

Environmental:

All underwear, socks and pants made with organic cotton (aim 3) 2% of collection currently made with sustainable material (aim 3) Green 500 members (aim 2 & 3)

1. 1 Profitability Ratio Analysis

The profitability ratios for Ted Baker PLC are calculated based on figure 1 and depicted in figure 2. The general trend of profitability over 2010-2013 is relatively stable with a net positive trend in ROSF, ROCE and gross profit margin. 2012 saw a slight dip in gross profit margin even due to increase in revenue. This was the result of a change in mix between retail and wholesale revenue in favour of wholesale increasing in percentage contribution. The wholesale has smaller margins. There was also an increase in promotional activities in this period. There was an increase in capital employed during 2012 as well as increase in administrative expenses due to expansion activities in USA and IT and distribution infrastructure investment to handle future growth, which resulted in a slight dip in ROSF, ROCE, gross and operating margin even after an overall increase in profits.

The dip in ROCE was more significant. On further analysis, it revealed that the company reserved more retained earnings and used a substantial bank overdraft in 2012 to finance their expansion activities. If some of the activities were financed by the retained earnings, there would be a relatively smaller dip in ROCE All in all the increase in administrative cost, interest payable, working capital and net cash flow has been in line with expected values.

The profitability of the company looks to continue in the positive trend due to steady expansion in overseas markets, diversification of supply chain to avoid disruption risks, continuous monitoring of market conditions and inflation etc. Based on a FAME analysis of 10 peer companies (listed in appendix), the ROSF, ROCE, operating profit margin and gross profit margin has consistently performed higher than average. Ted Baker PLC is one of the top performing retail designer brands over 2010-2013 financial years.

Average scores for 10 peer groups (from FAME) are shown as follows: ROCE (2013-2010 respectively) – [12. 8%, 18. 3%, 11. 4%, 16. 8%] Operating Profit margin (2013-2010 respectively) – [3. 16%, 3. 6%, 6. 41%, 8. 63%] Gross Profit Margin (2013-2010 respectively) – [50%, 54%, 60. 2%, 62. 6%]

1. 2 Efficiency Ratio Analysis

The INVENTORT TURNOVER PERIOD (2013) has increased since 2012 and is quite high. The reason for this is an increase in finished and work in progress inventory. The company has taken this approach of holding more inventory to meet its expansion activities and future forecasted demand. However this has resulted in increase in capital expenditure. In comparison to the peer group the INVENTORT TURNOVER PERIOD over 2010-2013 is very high in comparison to peers like Zara (41 days) and GPS LTD (83 days in 2013) but relatively close to peers like NO Ordinary Design Label Ltd (206 days 2013). Most of the peers showed an upward trend for the INVENTORT TURNOVER PERIOD which may be due to a volatile costs, demand change and expansion activities. It would be advisable for Ted Baker PLC to monitor the INVENTORT TURNOVER PERIOD. Even though the nature of inventory is non-perishable,

fashion trends change quickly and high inventory of finished goods does not go well with the trend.

The TRADE RECEIVABLE SETTLEMENT PERIOD has been relatively stable over 2010-2013 at around 46 days. The TRADE PAYABLE SETTLEMENT PERIOD has been relatively stable over 2010-2013 and has marginally improved by 7.5%. This ratio however is approximately three times the TRADE RECEIVABLE SETTLEMENT PERIOD. The company should evaluate improving payment period to suppliers in order to maintain a good supplier relationship while still maintaining a balance of using this trade payable period as a free short term finance for operating capital.

The SALES REVENUE TO CAPITAL EMPLOYED ratio over 2010-2013 has improved indicating improvement in how assets have been utilized. It increased by 5.8% over four years. In comparison with the peer group over 2010-2013, the ASSET TURNOVER ratio is near the median. The asset turnover was flat in 2010 and 2011 at 2.42 times throughout the year but increased quite rapidly in 2012 and 2013 respectively to 2.49 and 2.56. This ratio is determined by the sales revenue divided by the capital employed and from the data the rise in the capital employed dipped in 2012 with an increase over 2011 of just 10.43% compared to the previous periods increase of 12.92%. This was due to a reduction in the growth of the reserves which can be attributed to the increase in working capital from £34.9 million to £47.2 million. According to the annual report this increase was a result of the growth of the business, earlier release of the spring and summer collections and the Chinese New Year falling before the year end.

There was, in addition to this, a further increase to the capital expenditure for the year of £5 million to £15 million to cover the costs of new stores and refurbishment of older stores. In 2013 the reserves recovered to a 14.17% increase over 2012 which in turn increased the capital employed by 12.86% over the previous year. Together with an increase in sales of 15.26% over 2012 explains the continued increase of Asset turnover during 2013 to 2.56 times. Over all the organisation appears to be increasing its efficiency over the four year period with stable times for its trade receivables and declining times for its trade payables. Inventory is increasing in line with the increase of retail space as expected and asset turnover is increasing sharply which means there is more sales revenue for the capital employed.

According to FAME Ted Baker PLC is in the middle of the peer group for debtor collection days and creditor payment days while being 7th out of 10 for the peer group for Net Asset turnover and 9th out of 10 for Stock Turnover. FAME has calculated the trade receivables and trade payables without taking into consideration the 'accruals and differed income' and 'other taxes and social security' resulting in much lower figures for instance in 2010 the trade payables value used in FAME was £10,392 whereas, as seen in the data, £24,779 has been used here. Trade receivables are similar as FAME has not taken into account the 'Prepayments and accrued income' resulting in £14,436 being used in its calculation for trade receivables and £19,698 used here also FAME has divided trade debtors value by the total turnover whereas here it is divided by purchases in the form of the cost of sales. This results in different values of the trade receivables and trade payables.

1. 3 Liquidity Ratio Analysis

The CURRENT and ACID TEST RATIO for the period 2010-2013 is as shown in figure 4. There has been a downward trend for both the ratios. This is evidently clear from the growing inventory, short-term loans and decrease in cash equivalents. Comparing with the peer groups using FAME, the current ratio has been in line and performing slightly better than the median and mean. However, the ACID TEST RATIO has dipped way below the 1: 1 ratio. The inventory level more than double in 2013 compared to 2010. This coupled with slow INVENTORY TURNOVER PERIOD and greater borrowing in 2012 and 2013 should be a bit worrying. Falling net cash and cash equivalents was also an important components of current assets. Between 2010 and 2011, net cash and cash equivalents decreased by £0. 162m whereas between 2012 and 2013 the decrease was £11. 8m which had an negative effect on the current ratio. On the peer review, the ACID TEST RATIO is below the median and mean value for 2012-2013.

Ted Baker has strategically taken steps to expand its overseas markets and infrastructure and is holding access inventory to meet its expansion and demand needs. Since Ted Baker PLC has been consistently performing, has a net positive working capital between 2010-2013, has upward profitability and has met all its obligations thus far it is in a strong position to meet its future debts. The company needs to keep an eye on the results from its expansion activities. The net cash flow for 2013 and 2012 is negative (approximately £ -11900000). It would be advisable to use the reserves for some of the expansion activities than rely totally on short-term borrowings to improve cash flow and liquidity. In conclusion, the management must review <https://assignbuster.com/financial-position-and-performance-of-ted-baker-plc-essay-sample/>

their business financial structure to ensure that the sliding working capital is addressed and ensure that it does not cause discomfort to creditors who may refuse further loans if company is not able to meet its short-term debt commitments. Furthermore, management must address the funds tied to excess inventories which could have been invested elsewhere to generate better returns and more cash.

1. 4 Gearing Ratio Analysis

The GEARING ratio and INTEREST COVER ratio is calculated and shown in figure

5. The company has extremely low long-term liability with respect to its equity. It shows that most of the financing of the company is done using short-term borrowing and is not raised through shares. The reserves for the company are high. Short term borrowing strategy to finance expansion activities seems to work well as ROCE and ROSF and at steady levels. The company can use the reserves for activities like acquisitions if required. INTEREST COVER ratio is also high showing that the company has ample profits to cover its interest payments (35. 82 times in 2013). The ratio has dropped by significantly in 2013 from its high in 2011 (201 times) as the company has significantly increased its short term loans. Peer review on FAME shows that Ted Baker's INTEREST COVER is above the median and extremely good in the 2010-2011 period.

1. 5 Investment Ratio Analysis

The INVESTMENT ratios are calculated as shown in figure 6. Over the period 2010-2013, the company has a stable DIVIDEND PAYOUT ratio of <https://assignbuster.com/financial-position-and-performance-of-ted-baker-plc-essay-sample/>

approximately 52.5% and a DIVIDEND COVER ratio of approximately 1.9 times. The cash return on investment (DIVIDEND YIELD ratio) has decreased from 3.14% in 2012 to 2.21% in 2013. However the market confidence has increased the market value of the share which has caused the DIVIDEND YIELD to decrease. Although the cash returns on investors' investment is dropping yearly, the market still sees Ted Baker as a profitable company as evident on the increase in market price per share yearly.

It has increased by 149% from 2010 to 2013 (483£ to 1,204£).

Price/earnings (P/E) ratio has increased for the past 4 years starting 2010, but more dramatically in 2013 with 32% increase from 2012 (17.67 to 23.38) thus indicating that Ted Baker PLC is seen with confidence by the investors and the market and is delivering good return earnings to the shareholders. Earnings per share ratio has also shown a positive trend from 2010 to 2013 (32.51 to 51.50). Steady dividend pay-out ratio, steady profits, good investor confidence and increasing P/E and EPS makes Ted Baker Plc an attractive investment.

2. Limits of the Analysis

The analysis provided, is based on the calculation of ratios, representing a snapshot of Company's performance for the period 2010-2013.

All sales are assumed to have been made on credit

Cost of sales is assumed to be credit purchases

The inventory turnover period, trade receivable collection period and trade payable payment period ratios have been calculated using average values of

inventories, trade payables and trade receivables for the year (average of value at start and end of the year)

However, these assumptions have been consistently applied over the 2010-2013 period of analysis to maintain congruence in calculation and analysis.