Financial statement analysis - a.g. barr

Financial Statement Analysis

Introduction

A. G. Barr p. l. c. is based in United Kingdom it maufacture, distribute, and sell soft drinks. A. G. Barr. operates in carbonates and water. Company has a wide range of brand’s which includes IRN-BRU, Rubicon, Barr Brands, KA, Strathmore, Simply, Tizer, D’N’B, St. Clement’s, Findlays and Abbott’s. Company also has some partnership brands which includes Orangina, Rockstar and Snapple. The manufacturing area located in United Kingdom. Findlays Limited, subsidairy of A. G. Barr P. l. c., is engaged in Rubicon Drinks Limted and natural mineral water as well as the manufacture and distribution of soft drinks. Schweppes International Limited is also a franchise partner of A. G. Barr p. l. c in United Kingdom, authorized for manufactures and sells Orangina. It also has collaboration with Rockstar Inc. in the United States to sell and distribution of energy drink, Rockstar brand in Ireland and United Kingdom. The following pie-chart represent market share of soft drinks and low calorie drinks. They strategy have developed in a way to deliever long term growth in value and focusing on core brands and markets, brand portfolio, route to market, partnerships, efficient operations, people development, sustainablity and responsibility.

Financial Review

The business performance throughout 2013 of A. G. BARR has perform well in U. K soft drinks market especially in second half of the financial year with double digit growth rate. The economic conditions in the core market segments survied difficulties in 2012, as well as the increasing cost of promotion effect margins. A. G. BARR growth rate for volume and revenue increased more rapidly then the market in carbonates ans still segments. The overall growth of softdrinks experienced carbonates growth rate of 3. 8% in value but decreases in terms of volume, showed growth of 1. 9% with avolume declining 1%. In 2013 A. G. BARR carbonates volume increased by 6. 0% and revenue increased by 7. 1%. On the other hand stills also performed better with a growth of 4. 3% in revenue and 4. 1% in volume. In addition to delievering a growth higher then the market and much of the build program associated with their new production and storage facility at Crossley Road, Milton Keynes. The Milton Keynes site is an important asset for future business developments. Adverse whether condition in 2012 impacted soft drinks category according to Nielsen research, reflects 0. 7% decline while to volume grew by approximately 3%. Conumer participation in the carbonates category has remained at high level supported by price-driven promotions across the main brands.

Ratios analysis over the last 3 years

Profit Margin: According to the financial statements ended January 2013, Company declared a profit after tax of £ 25. 564 million which represent 10. 76% of its sales. Current year revenue grew by approximately 7% from prior year and 3. 42% on the basis of average growth rate from the last three year. Profit before tax and exceptional item in 2013 increased by 4. 3% but profit margin was slightly reduced in 2013 as compare to 2012, due to higher cost of goods. In 2012, observed as a climate of continued economic uncertainty and increasing cost. Despite these challenges company’s profit before tax and exceptional item increased by 6. 2% from 2011. In 2011, Profit before tax increased by 13. 3% from 2010. In 2011 AG Barr observed 10. 4% growth in revenue as compare to 7% in UK soft drink market.

Current ratio: measure the financial stability of a company to pay its current liability. According to the financial statement, in 2013 current ratio represent 1. 31(in times) thus company has enough to pay its financial obligation. Current ratio in 2012 represent 1. 46 (in times) which shows that company financial stability in 2012 is better among 2011 and 2013.

Quick ratio: measures the financial stability after deducting inventories and prepaid expense because they cannot be easily converted into cash at fair value. Quick ratio show clearer picture then current ratio, the company’s financial stability in 2012 of having 1. 043(in times) as compare to average 0. 9 (in times) in the rest of year.

Working capital: is defined as the financial ability of a company to pay its short term obligation. Working Capital is an important factor used to measure its financial health. Working Capital Management is the strategy of a company to maintain efficient levels of both asset and liabilities to improve their earnings. It is calculated as current assets minus current liabilities. It involves management of inventories, cash, accounts payable and account receivable. Working capital is required to support the day to day business operation it is treated as life blood for smooth and effective business operations. Working capital in 2013 and 2011 is less as compare to the 2012. In 2012 company has £ 20. 934 millions more than its liabilities. Thus in 2012 company has managed their day to day operations effectively.

Dividend: A. G. Barr’s efficient performance through the year enabled them to distribute per share dividend. In 2012 company’s profitability reflected in its dividend, declared £ 25. 96 per share, which is high through the rest of years.

Inventory turnover ratio: measures the number of times the company sold its inventory throughout the year. AG Barr have inventory turnover of 6. 51(in times) in year 2013 which means that company has 1. 84 month of supply of inventory on hand. In 2012 and 2011, company has 2. 02 (in times) and 2. 05 (in times) months of supply of inventory on hand.

ROE & ROA: Return on equity in 2013 is greater then return on asset by 12. 55% across the year it means that company is utilizing its asset perfectly as well as optimizing its debt effectively. It also shows that management is generating good result from shareholders’ investment.

Account receivable turnover: Account receivable shows credit policy of a company according to which average time allow to customer to pay their debt. In 2013, 12. 64 days took to recover their credit sales. Among the three year, in 2012 company was recovering their sales quickly at the rate of 7. 70 days as compare to the rest of years.

Operating Risk: can be defined as the more the proportion of fixed cost and lower variable cost is said to be high operating leverage. A ratio which is commonly used to determine the effect of operating leverage at given level on the firm’s potential earning is calculated by dividing, % change in EBIT by % change in Sales.

Financial Risk: is the use to debt in it is calculated by dividing % change in EPS by % change in EBIT. Financial risk is not dependent on sales because whether a company has high or low sales it has to pay fix interest. By calculating financial leverage of AG BARR it appears that only 1% change in EBIT, Earning per share would change by 0. 93.

Preparation of financial statement: Financial statements of A. G. BARR p. l. c. have been prepared in accordance with International Financial Reporting Standards (‘ IFRS’) as adopted by the European Union. They have been prepared under the historical cost accounting rules except for the derivative financial instruments and the assets of the Group pension scheme which are stated at fair value and the liabilities of the Group pension scheme which are valued using the projected unit credit method.

FINANCIAL MARKETS AND THEIR IMPACT

Financial market is a market where an individual and corporation can trade financial securities, commodities. This table shows classification of market and instrument through which corporations can raise funds.

Market	Financial Asset
Non-marketable Assets	• National savings certificate • Certificate of Deposit

	• Saving Deposit
Money Market	• Treasury bills • Commercial Paper • Repurchase agreement • Euro dollar • Bankers acceptance • Negotiable certificate of deposit
Capital Market	• Common stock • Preferred stock
Fixed	• Corporate

		Bond
Income		• Municipal Bond
		• Unit Investment Trust
	Open End	
Investment Companies		• Mutual Fund
	Close End	
		• Exchange traded fund

Raising funds from equity market may lead the investor to think that the company financial flexibility is weak, and they are unable to get funds from banks or other sources. Stock issue leads to decreased earnings per share. Raising capital from foreign investor involves two main risks which are relevant for foreign investor. They include economic risk and political risk. Economic risk is less in countries with strong and stable economy situation. On the other hand political risk is linked with the economic stability of a country. Political decision and policies plays an important role in an economy. Political risk also called sovereign risk, the ability of a company to pay its foreign financial obligation. Risk is defined as uncertainty. The indication of risk and reward guide the investor that it would have a possibility to loss some or whole of its investment, an investor may experience bullish trend on his investment.

Risk and return are directly correlated. The more you take risk, the more the likely return is, because investor demands additional return for additional risk. In finance this relationship is known as the security market line. Common stock and corporate bonds are two asset classes. Corporate bond is a debt instrument and common stock is equity. Corporate bonds and, TFCs are issued by a corporation and sold to investors. Government bonds are less risky then corporate bonds. Common stock is riskier then corporate bond because if an organization goes bankrupt, common stock holders get last priority until debt holders and preferred stock holder have received their assets. But common stock holders have the possibility to earn greater or lower return as compare to stable return on corporate bonds.

As far as A G BARR, capital structure for the last two years shows that debt weight-age of the total asset was 42. 64% and 50. 44% in 2012 and 2013 respectively. So the company has raised fund through debt in order to meet the financial need of company. One of the major benefits by using debt financing is tax advantage and borrowing has a fixed return to stock holder. It has positive impact on the firm but because company failed to control its operating expenses, net profit in 2013 is less than 2012.

Future Prospects

A. G. BARR has observed a healthy performance in a marketplace impacted by the mixture of very poor summer weather conditions and the continuing economic challenges faced by consumer goods companies, especially raw material cost pressures and unpredictable consumer demand. Looking ahead it is doubtful that these challenges will significantly change, however they remain carefully confident that the combination of our established operating model, continued focus on efficiency, building brand equity, sound balance sheet and ability for growth prospect leave them well placed to continue to build on this performance. In the year ahead, they expect some decrease in the pace of input cost inflation which we expect to be at a low single digit level. Current market pricing for PET is down year on year, fruit pulp costs are lower but the cost of sugar remains persistently high

Conclusion

A. G. BARR has delivered strong financial performance in challenging year markets. Their products continue to respond well to equity investors. They have driven strong growth in revenue and volume and have continued to increase market share across the soft drinks market. Product and supply chain innovation enabled numbers of consumers to their brands. They are further investing in assets, acquiring additional capacity that enables them to grow according to consumer demands and in line with the market pace. Following a challenging 2011, last financial year survived with strong in terms of operational performance. Last year reported growth in products availability and customer service has improved and cost managed effectively. During 2012 the potential merger received overwhelming shareholder support. In 2013, financials reported profit before tax increased to £ 35. 0 million, showed 4. 3% increase from the previous years. Earnings per share increased during the year by 10. 9%. Their balance sheet measures have improved, showed net assets of £130. 6 million, during the year company also generated free cash flow to the firm of £ 22. 0 million. A. G. BARR p. l. c. group brands, as well as their franchise brand Rock star, showed 8. 6% growth. This performance is above as compare to the market reflects that they continued opportunities to develop availability, innovation and distribution among their brands. Their geographical growth rates grew by 4%, and investment except U. K. grew by 12%, showing both important long term growth opportunities and comparably important share from their brands.

References

1. A. G. BARR p. l. c. Annual report 2013 pages 70 – 124http://www. agbarr. co. uk/pdf/Final Results Announcement January 2013. pdf[Accessed: 12th May 2014]
2. A. G. BARR p. l. c. Annual report 2012 pages 62 – 94http://www. agbarr. co. uk/pdf/Final results announcement January 2012. pdf[Accessed: 12th May 2014]