Ratio analysis of next plc

[Business](), [Company]()

Business Accounts – Assignment I Introduction Next plc is a retailer founded 1864 in the United Kingdom, that not only sells men's, women's and children's wear but also has a home ware department. Their clothes wear are stylish but affordable. Throughout the United Kingdom and Ireland there are over 550 Next stores plus 50 franchises operating in Asia, Europe and The Middle East. This report will analyse and outline the company's profitability, liquidity, solvency and investment potentials based on 15 ratios.

All information is taken from the Next plc 2011 statement. Profitability and Performance The gross profit ratio indicates that Next plc was able to maintain their gross profit. It has decreased insignificantly by 0. 05%. In 2011 the revenue has increased by roughly 47 Million, hence the sales of costs increased proportionally to this. The reason for the increase could be either an introduction of a higher priced product line or merely a purchase of more goods. One reason could be that due to higher demands they had to stock up their inventories.

This ratio indicates that the company was able to sustain the same level of costs in year 2011, but also that the trading department successfully negotiated better prices with suppliers. The operating margin has experienced an increase in numbers from 15. 55% to 16. 64%. It seems that Next plc found a way to control their costs more efficiently. On the income statement one can see that the administration costs and distribution costs have reduced. This could be due to cuts in wages or rent. In general, however, it can be said that Next plc improved their cost accounting.

This could be an explanation for the increase in the operating margin ratio. The asset turnover ratio has fallen slightly by 0. 05. A reason for this could be slightly higher investments in fixed assets like plant or equipment. All in all though, they have managed to maintain leveraging their assets, but in future they should try to use their existing assets more effectively. One can see that the return on capital employed ratio has experienced a growth of 3. 28%. Just as for the operating margin, a possible reason for this could be major cuts in administration expenses and distribution costs.

This ratio indicates that the company has increased its efficiency at creating profits out of themoneythey have invested in and basically proves that Next plc knows how to use their funds successfully and control their costs effectively. In general, these ratios indicate that the profitability and performance of Next plc is very positive. Liquidity and Efficiency Liquidity ratios indicate how efficiently a company can pay off its short-term and long-term obligations. The inventory days have increased by 8 days. This shows that they keep hold of their stock for a longer period of time.

It seems that the demand for their products has decreased. Trade receivables have increased by 2 days, which means that Next plc receives money from their customers slightly later than in year 2010. A possible reason for this is a general rise in unemployment and hence " limited growths of consumer credit" (Next Plc, 2011). However, receiving money from their customers later than before, the company has managed to pay back their creditors faster in 2011 than in 2010 (trade payable days have decreased by 2 days). This is likely to prove a higher efficiency of balancing costs and revenues on the company's part.

In a wider context approximately 80 days are a relatively long time to repay credits. This could on the one hand demonstrate the creditors' trust in Next plc and their ability to pay back, but it is also possible that the company simply struggles to pay back credits any earlier. In this case though the trade payable days are probably high due to good negotiations of the purchase department with their suppliers. This assumption is based on the fact that Next Plc has a high amount of cash. The current and quick ratios have slightly fallen.

The current ratio is still above 1, meaning the company does not have any problems meeting their short-term obligations. A reason for this slight decline could be that there has been an increase in their short-term debt. In this case their current liabilities did actually increase. As long as the current ratio, which takes inventories into account, is higher than 1, they do not experience any problems repaying their short-term liabilities. However, the quick ratio is smaller than 1 and has marginally decreased in 2011. Due to this Next Plc might have problems paying off their short-term liabilities if sales decreases in the next years.

In general though, they seem to have a rather good ability to generate cash and pay off their obligations. Solvency The gearing ratio seems to be immensely high. This could be due their major savings. It seems that they are buying their own shares back perhaps in order to save up for projects like reorganisations or investments. It has decreased by half from 2010 to 2011 probably because they reduced their non-current liabilities. High gearing is supposed to be risky and also results in paying higher interests. Their interest cover has risen by 2, possibly due to the fact that the interest figure has fallen by 1.

This means they can pay off their interest roughly three times more than in the previous year. A possible reason for this could be a decline in interest. In general, Next's interest payments seem to be very safe. They are generating enough revenues to meet interest expenses. Investors Ratios Investor ratios are usually used by investors in order to examine if it is worth investing their money in a company. They monitor these figures over years in order to make a " right" decision. The earnings per share ratio has increased from 188. 5p to 221. 9p.

The reason for this is that the profit after tax has increased in 2011 and the number of ordinary shares declined by 33. 4. This obliviously results in the earning per share being higher. A reason for the decline in numbers of ordinary shares could be that Next Plc bought back shares. The dividend yield has experienced a growth by 0. 46. This means that investors receive more money than in year 2010. A reason for this is that the current market has not changed over two years, the price remained stable. In 2011 the dividend cover has fallen slightly by 0. 26.

A possible reason could be that they have decided to increase the dividends per share in relation to profit after tax. The price/earning ratio has experienced a decline by 0. 021. This shows that in 2011 investors receive their money back slightly quicker compared to 2010. This could be due the decline in numbers of shares; meaning Next Plc could afford to give out dividends faster. Economical position Debenhams plc is one of Next's main competitors. It can be insightful to examine the economical state of relevant competitors in order to judge a company's success. Debenhams' ROCE-ratio shows extremely lower figures than Next Plc. 010 the ROCE was 13. 94% and

2011 12. 34%. First of all, one can see that it has decreased in 2011 and compared to Next plc it is roughly 45% lower in both years. It is crucial to note here that Next plc increased their ROCE whereas Debenhams Plc’s decreased. This shows that Next plc is extremely more efficient in creating profits out of the money they have invested in. Based on the current ratio one can say that Debenhams plc would be struggling to pay off their short-term obligations since it is less than 1 whereas Next Plc would have no problems since theirs is above 1.

The interest cover is also much lower compared to Next plc. However, Debenhams plc’s interest cover has increased by circa 3% it is still 17% lower than Next Plc’s. This indicates that Next plc either has greater profits or Debenhams plc has higher interests. All in all, it seems that Next plc was not badly affected by the recession compared to Debenhams plc. Conclusion In conclusion, it can be said that Next plc successfully managed to maintain and even reduce their costs and maximise their profit especially thanks to Next Directory, which has increased by 7. 1%.

Although the economicalenvironmentis rather weak they could yet overcome these obstacles and make a profitable year in 2010 and even increase their profit in 2011. The general economic situation is likely to suffer from the worldwide consequences of the financial crisis as well as the European Euro crisis in particular. This means that Next plc has to find a way to become more competitive so as to maintain their high profits. For instance, they could invest in marketing to attract more customers and hence increase and sustain sales. The only ratio that they might have to worry slightly about is the quick ratio.

But as long as they keep their sales up the current ratio does not seem to be any problem at all. All in all, most of the ratios indicate that Next plc is overall a successful growth company. They proved its competitiveness despite the economical decline in retail and in the consumer price index, which has decreased to 4. 2% from 5. 2%. Especially, when comparing Next plc to its main competitor one can see that they successfully kept their sales up. Generally, the ratios indicate that Next plc has a relatively strong and stable economic success, while controlling their costs effectively.

All ratios, especially the dividend yield, prove that the company is a highly profitable company to invest in. Reference List http://www. bbc. co. uk/news/business-15344297 https://fame2. bvdep. com/version-2012113/Report. serv? _CID= 63&context= 2A6M7EI864H8BPQ&SeqNr= 0 http://www. nextplc. co. uk/~/media/Files/N/Next-PLC/pdfs/reports-and-results/2010/2011-03-24a. pdf http://www. nextplc. co. uk/about-next/our-history. aspx http://www. nextplc. co. uk/about-next/business-overview. aspx http://www. retaileconomics. co. uk/outlook-for-the-uk-retail-sector-q3-2011/