

# British vita plc financial statements analysis

Finance



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A corporation represents a complex entity. It is an independent legal entity which operates under the leadership of an executive director or a group of executive directors. The Directors have full control of the company, but they generally do not have full ownership of the corporation. The directors are functioned like agents, their duty is to ensure that shareholders funds invested in their disposal are managed and used in the most effective and efficient manner, to produce optimum profitability and growth.

As compensation for their work this executive directors are given salaries and usually bonuses, relating to the quality of their job leading the company. Sometimes they are given a part of the company's share, in order to nurture the sense of ownership and to create caring attention towards the company's welfare. The familiar issue arises regarding to the relationship between the directors and the shareholders is known as the Agency issue. The shareholders are, due to their part in providing funds and furthermore, company's assets, the true owners of the corporation.

Therefore, it is their will that supposed to be guiding the corporation conducting their operations. Nevertheless, the shareholders have no control towards the company and they have no information regarding the company's operations unless what the directors gave them. This creates a reasonable doubt of whether the will of the shareholders is generated through the company's operations or is it not. If we continue to walk on this path of logic, we will be guided to understand why viable financial reports are significantly required. Financial reports are communication tools between corporate executives and company's shareholders.

This function will be portrayed clearly as we analyze the financial statements of British Vita PLC, producer of polymer for products required by a wide range of customers in foam, plastics and non-woven markets.

## II. Historical Background

The original company was named Vitafoem Limited, formed by the late Norman Grimshaw on 1949, in Oldham, England. By 1954 the company has diversified into automotive products, mattress and divans. This was the first year Norman Grimshaw made the trip to Malaysia to examine a rubber plantation. On 1957, the first latex plant production was already producing.

The company purchase it first associate overseas in 1960. The first polyether company was installed at Middleton in 1963, 3 years later; The British Vita Company was formed. One year after its formation, Vita became a public company. After establishing joint ventures in Australia and Canada, management structure changed to autonomous profit centers in 1975. The company introduced share options schemes for all employees. 2 years after the original founder died, the company, following the Companies Act changed the company name into British Vita PLC.

Acquisition was continuously made trough out the world. Affiliates established in Germany, Switzerland, Australia and the United States. On the year1998 alone, the total acquisition value was 170 million pound sterling. British Vita made six acquisitions during 2003. The group has 3 division, Cellular Foams division, Industrial polymer and Non-woven polymer. The cellular division's product includes block polyether, molded foams, and polyester in rolls; rebound foams, and a wide range of reticulated and impregnated foams.

These products are used in everyday objects as well as for special purpose like medical and industry needs. The Industrial use varies from automotive to undersea pipeline applications. Companies made partners with Vita because of its ability for compounding and forming various innovative products. The non-woven products including flame retardant, weldable, and hydrophobic and mould able waddings, non-wovens and a wide range of textures yarns. These products are distributes worldwide and achieved the highest reputation in a number of countries. III.

Financial Statement Analysis – 2000-2003 performance trends To a certain extent, a company's profile and profitability ratio describes the management's performance producing profit from its available resources. But a fair evaluation of management's work cannot be done by means of profitability ratios only; attention need to be paid towards the balance sheet and cash flow statements also. An increase of a company's performance in profitability ratios can be the result of their increased efficiencies, but could also be caused by changes in the amount of their capital employed.

Below is British Vita's profile and profitability ratio followed by assessments of company's performance trend over the last 4 years (in ? million). For a clearer perspective of the British Vita Group, we will divide the ratios above into certain categories. 3. 1 Activity Performance Ratio Some of these ratios are stock turnover, debtor's turnover, debtor's collection days, and assets turnovers. Activity performance ratio is a measure of management's efficiency to manage and regulate the company's daily operation.

British Vita's performance trend on this aspect seems to experience a mild fluctuation, but overall having a relatively high rate of efficiency. The stock

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turnover for instance, shows an average rate of 12. 2. This means that the company repurchases their stock averagely 12 times over the year, which indicates management's success of keeping the amount of inventory sitting in their warehouse small and thus, displays an efficient management inventory. The debtor's collection days show an average number 63. 1, these means that their debtors usually pay their debt within 64 days after the purchase.

Net and fixed assets turnover showed a relatively low number, but this is most likely due to the nature of the industry itself. Overall activity performance ratio displayed an only mild fluctuation trend of performance. There is a little decrease in receivables and inventories management during 2002 and also an increase in asset turnovers in the same year. By observing the balance sheet and cash flow statements (which is not displayed due to the limited extent of this paper) carefully we can see that the increase turnover was caused by the decrease in net and fixed assets.

The decrease in net and fixed assets is caused by management's decision to sell a few of their current and fixed assets to meet their long term debt and liabilities which is due to payment within the year 2002. While the decrease in receivable and inventory management efficiency measure might be a short term under achievement (during an adjustment period) influenced by the sale of fixed assets. This is proven by their next year (2003) performance which relatively " bounced back" rapidly. 3.

2 Liquidity and Solvability Performance Ratios These ratios consist of liquidity ratio, creditor's payment days, and interest cover ratio. The liquidity ratio shows an average number of 0. 89, which means every pound sterling of

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debt is guaranteed by 0.89 pound of current assets. The condition displays the company's low ability to pay for its current debts. However, the creditor's payment day's average number of 47.86 indicates that the company is able to pay their short term debt in the very fast manner.

The interest cover ratio also indicates a high solvency rate as the numbers indicate that its earnings before interest tax (EBIT) outnumbered the long term debt interest 16 to 1. Overall review of liquidity and solvability also displays little fluctuation of the company's ability to meet their short and long term obligations over the 4 period of analysis. However, there is a rather significant increase (298 % compared to last year) in the interest cover ratio during 2002 indicating the payment of a significant amount of long term debt during the period.

This is then justified by looking at the balance sheet and cash flow statements which displayed over ? 200, 000, 000 of the company's long term debts and loans are due and paid during the year.

### 3.3 Profitability Performance Ratio

This category consists of profit margins and earnings, return on equities, and return on assets. These ratios indicate the raising ability of the company to produce profit from its sale. The profit margin, gross margin, EBIT margin and EBITDA margin shows a more significant fluctuation compared to the other ratios.

The most significant change happened during 2002, where the profit margin ratios all together indicate a significant increase. The significant increased during 2002 seemed to indicate that management has found a way to enhance production's efficiency or a way to reduce costs, but by taking a glance through the balance sheet we understand that the rise of the numbers

was due to the company's significant assets and investments disposal. This is then dignified by their next year profitability ratios number which dropped at least as hard as it has climbed up during 2002.

The return on equities and return on assets employed ratios indicates a mild performance fluctuation. These ratios represent company's ability to produce profit using equities and funds invested in them. Due to its function to explain how effective the management using the funding invested in them, many consider these ratios as the core of financial analysis. The management's best performance according to these ratios happened during the year 2002. Relating to the previous analysis on activity and profitability ratios, the considerable incline in ROA (13.

62 % increase, 117 % incline from the previous year) and ROE (12. 4 % increase, 74% increased from the previous year) during 2002 are generally not caused by the increasing of management efficiency, but only a short term effect of the company selling its assets to pay their debts. This assessment is again, proven by the next year ratio which dropped similarly to their rise. Our final assessment towards the management's 4 years performance is stated below: The British Vita PLC displayed a relatively stable performance during the 4 years.

There are no significant rises or falls regarding management's efficiency or its ability to produce profit, except the 5 % increase of company sale during 2003. The significant raise and fall in certain ratios during the year 2002 was an effect of the company's financing activities, which is the payment of a significant amount of long term debts and loans, and have little to do with management's changing ability to produce profit. IV. Financial Statement

Analysis – Evaluation for 2003 British Vita PLC's profit and loss account during the year 2003 indicate a stable efficiency rate.

There is a 5 % increase of sale from the previous year as mentioned before, but the cost of sale also shows an increase of 13.5 % indicating that the cost of production has mildly increased and efficiency has mildly decreased. The account also shows that higher retained profit for 2002 was caused by the profit from disposal of businesses occurred during the year. Further analysis on the company's 2003 Annual Report elaborates the company's present condition. According to year's chairman, D. Cotterill, Vita has succeeded in delivering a good performance over the year.

The two business segment of Vita's, which is Cellular Polymer and Industrial Polymer has continue to grow and producing significant profit over the year. Cotterill has also mention that the third segment however, has experienced an unfortunate sale results. He also mentioned a sale of the US Spartech investment which explains the significant decrease on Vita's investment account during 2002. Some of the fund raised is then used for a share buyback program with to date has repurchased 14 % of their issued share capital.

A study of the financial review also indicates that the non-woven segment's loss has overcome the profit growth of the other two segments. The decline of ? 1.0 million is partly caused by the profit adjustment for the previously overstated profit in the US business. Another cause of the decline is caused by the reduced demand of the entire Continental Europe, Scandinavia and in the UK. The market overcapacity severely impacted Vita's margins. The governance report displayed an orderly fashioned management activity. The

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board of directors meets 8 times each year and holding additional meetings if necessary.

The directors are encouraged to make an independent judgment regarding company's issues. The solutions are then to be discussed on their scheduled meetings. The decisions are then given to the chairman for approval and chief executive to be implemented in business operations. The chief Executive has 4 ECG's (Executive Control Groups) responsible for running the daily business, one for each of the cellular polymer and non-woven polymer divisions, and two for the Industrial Polymer. The company uses the internet as company's link of communication and also as a promotional tool of the company.

Company information site is available 24 hours a day and its integrity is constantly maintained by the board of directors. The company also has independent audit committees meeting three times in 2003. The committee reviews internal and external audit activities and monitors compliance with statutory requirements of financial reporting. The directors' report indicates that the company also concerns about their social and environment responsibility. Environmental report is integrated with the rest of the annual report describing corporate performance.

The group donates over than ? 50. 000 to charity during the year. V. Assessment of Future Prospects 1 As we have stated before, financial statements carries a major significance to a company's existence. Trough the financial reports of British Vita PLC, we can asses the company management's competence in performing their duty as an agent. We have elaborated the company's entire growth trend in the third chapter of this <https://assignbuster.com/british-vita-plc-financial-statements-analysis/>

paper. Concluded from the analyses, British Vita's management performance ratios showed a stable rate of high efficiency.

The major shifts in some of the ratios are a temporary fluctuation which has been managed in a good manner by the company, causing the next year's performance to quickly bounce back to their general rate of growth. There is no reason yet to question management's ability to ensure the company's growth and profitability. Without certain major disruption in the group's working conditions, future performance will most likely show increasing result also. The lack of sale in the non-woven market was due to a shift in market that hasn't been anticipated.

The other two segments displayed an encouraging rate of profitability growth. Even so, predictions say that the decreasing demand in the non-woven market might have not be over yet by the beginning of the next period of productions. These mean that the segments managers must find a way to regenerate the sale growth to avoid similar reduction on the group's overall sale. Bibliography British Vita PLC [online]. 2004. Available at [www.britishvita.com](http://www.britishvita.com) British Vita PLC [online]. 2004. Available at <http://www.britishvita.com/index.html>