

Investment and performance report on next plc finance essay

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1. 1 NEXT Plc:-

This investor report will cover all key areas such as cash generation, income, management of assets, quality of investment made, performance in the relative sector and dividend policy and cost of capital. On the basis of current and past performance of the company and data provided in different annual sheets and news of the company, this report will help give a clear picture as to whether an investor should sell, hold or buy shares of Next plc.

1. 2 Next Plc Introduction:-

Next Plc is one of the biggest clothing retail organisations in United Kingdom. Next Plc is known as excellent quality fashion, value for money, beautifully designed and accessories for women, men and children and together a complete range of home-ware. Organisation has 500 stores all over UK and Eire. Next plc has next directory, shopping catalogue of home and website which has 2 million and more customers all over 30 countries globally. Next as an international Plc has more than 180 operating stores all over Europe, middle east, Russia, Scandinavia, Japan and India. This organisation's retail operation started in year 1982 and listed on London stock exchange and member of FTSE100 index. Next Plc started online shopping in year 1999 and the website serves more than 35 countries outside the United Kingdom through NextDirect. com which is an international website of organisation.

1. 3 Groups other businesses:

Next Sourcing as a venture through, which sources, designs, and buys brand products; Lipsy a venture through, which designing and selling of Lipsy brand products to young women's fashion products through the website, retail and

wholesale channels; and Ventura, which offers customer service to clients, wishes to outsource their customer contact administration and fulfilment activities.

1. 4 Business strategies and objective:-

The strategy of Next plc is to deliver continuous productivity in long term growth of the earning per share. Developing and Improving Next product ranges, in order to achieve success which reflects the total like for like sales performance and sales. The Next plc also focuses on Increasing the Next selling space and profitability ratio, meeting financial criteria for appraisal for new stores before the investment is made and level of success is measured and monitored by the profit and sales contribution as compared the appraised focused target. Increasing the number of Next Directory customers and their average spend as well as managing of net and gross margin through sourcing of the products, and efficient administration of stock, regular cost controlling and management of working capital. Apart from this the group also focuses on the maintaining the financial strengths by strong financing structure and balance sheet figures. Lastly, Next also plans to buy their share when earning enhances in the interest of shareholder as overall.

1. 5 Historical financial performance:-

Revenue: -

The revenue evaluation by historical financial performance will help us to calculate that how organisation is delivering higher returns to the shareholders. The evaluation is done by accessing the revenues which

invoice the sales value, royalty and the tax through group sell products like Cloths, footwear and home ware. FT, (2009) shows that revenue is recognised when the products value and price is constant and reasonably assurance of the due collection of amount. The total revenue on Next through the brands excluding VAT in year 2010 is £3, 215. 1 million, which was £3, 088. 8 million in year 2009, the total rise of revenue is seen by 11. 7%. Whereas the revenue from the Ventura is £145. 6 million and from other activities was £45. 8 million in year 2010 and in year 2009 it were £161. 8 million and £20. 8 million respectively. The NEXT PLC is 2nd highest revenue earner in United Kingdom in year 2010 (Standard and Poor's, 2010). The total revenue of the Next Plc has increased by 10. 8% in year 2010 when compared to year 2009.

Figure 1. Source Next Plc annual report, 2010- Revenue

Year 2010 was unusual and unstable due to the economic downturn and drop in sales along with weakness of Sterling compared to the Euro and US Dollar which are the key buying currencies. The increased retail space of Next Plc by 257, 000 square feet in year 2010 and rising retail store from 510 (2009) to 517 (2010) help increased the revenue. The weakness of Sterling was a massive challenge to margins. The average rate at which Next plc acquired US Dollars declined by 35 cents and if Next plc has paid the same dollar prices for organisations merchandise, bought in gross margin would have been reduced by -5%. The wage and Salary in year 2010 is £597. 7 million which was increased whereas in year 2009 it was £571. 4 million, Social security costs and other pension cost were nearly equal in both the year.

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Figure 2. Source Next Plc annual report, 2010– Staff Costs & Key Management Personnel

Investments activities:-

Next plc has increased the investment in retail space by 257, 000 square feet in year 2010 whereas in year 2010 organisation has 517 retail stores which were 510 in year 2009. Next has plan to spend £20 million on maintaining brand image, organisation has invested £7m to extend the stores, £26m refitting, £6m in shoe and new sports departments and £17m on extensions. In investment Next has explained that concentration of organisation on online purchasing is more as compare the one store in each city, which does not justify the investment. In other way though the organisation wants expand the online purchase still Next has not spent the money on marketing in 35 countries.

Share Buyback: -

Organisation has policy to invest the money through buy back the shares in year 2010 organisation acquired the 5. 9m of share at the cost of £120 million. Next plc has major intention to develop core business activity rather than from buy back shares and intention to maintain an investment grade credit rating. The plc expects that IT systems & business continuity will require continuous enhancements and ongoing investment to prevent obsolescence and maintain responsiveness to business needs.

Figure 3. Source FT. com Companies investing in Next Plc in year 2010

Figure 4. Source Annual Report 2009 Companies investing in Next plc in year 2009

As shown in above two figures 3 and figure 4 shows that black rock investment management company has enhanced their share in next Plc in year 2010 to 12. 53% in September 2010 where as in year 2009 it was 9. 58 %, fidelity management and research also rose their share holding to 6. 23% share in 2010 which was 5. 79% in year 2009. Schrodgers Plc has 5. 79% share holding in year 2009 and dropped the shareholding to 4. 81% in year 2010 because the FTSE 100 expected growth of 20% in 2011 (Citywire. co. uk, 2010). Legal and Investment Management limited company and Standard Life insurance company have also gained 4. 04% and 2. 75% of share holding in year 2010 whereas the AXA SA and Barclays Global investor has withdrawn the share holding in Next Plc in year 2010 (uk. reuters, 2010). As the Retail profit increased by +12. 2% and net margin increased by +1. 1% organisation were focusing on the employee training and development and NEXT opened 9 home stand stores and taking out of town 18 stores these store contributes the organisation 19% contribution and expect payback period of the capital is 14 months.

Sources of finance:-

It is necessary for an organisation to grow the sale and revenue in order to meet the market demand and shareholder expectation. Thus, the cash flow and income generation need to be looked into.

Short term Finance: -

The short term finance is the system in which organisation borrow loan for less than a year, it is need to evaluate and to investigate the organisations debt or over draft with in short period of time which is less than a year.

Working capital is the essential to carry out the day to day business, it is calculated as " current assets - current liabilities", as shown in the Appendix A, organisation has the positive working capital which helps the organisation to pay the short term liabilities. Though the significant drop of the working capital is seen in year 2010 (£283. 1 million) as compared to year 2009 (£360. 1million) is justified on the basis of the organisation investment in the new stores, increasing the retail space in many retail store, improving the online business and training and development activities for the employee. It is also seen that debtor day's is decreased from 69 days to 66 days this shows that the better financial position of the Next Plc. In Next plc the current ratio of the organisation is positive and indicates that the organisation has the positive and good financial position to pay the debt and liabilities. As shown in appendix A in year 2009 the current ratio was 1. 50 and in year 2010 it is 1. 37 which is positive justify the organisational strength. Appendix shows that the industry ratio is higher than the Next but the less and more than 1 ratio is justified on the basis of the organisation market expansion and store expansion strategy, and S&P current ratio is low as compared to the organisations ratio.

Figure 5. Source Annual Report 2010 Current liabilities

Quick ratio:-

Quick ratio helps to show that the organisation meets the short-term debt, $(\text{Current assets} - \text{inventories}) / \text{Current liabilities}$. There is slight drop in the ratio seen in year 2010 (0.96) as compare to year 2009 (1.05), the slight drop is seen because of the increasing other creditors and accruals which is £309.0 million (2010) which was £239.6 million (2009), and other taxation and social security in year 2010 it was £60.9 million which was £46.3 million in year 2009.

Long term finance:-

The long term finance of the organisation is evaluated by equity. The equity of the company has £133.6 million which was slightly dropped as compare to year 2009 which was £140.6 million. In year 2010 the Fair value reserve of the organisation decreases drastically from £69.6 million to £5.1 million. The drop in the equity has seen year due to demerger of the Barclays Global Investment and AXA SA, in same way Schroder Investment management has decrease the share holding from 7.41% (2009) to 4.81% (2010) the significant drop has seen due to the Schroder Plc expects the FTSE 100 expected to rise at 20% and wanted to invest in FTSE100 (Matthew Goodburn, 2010).

Figure 6. Composition of Equity in 2010-2009

Authorised share capital:-

Figure 7. Source Annual Report 2010 Share Capital of Next Plc

During the year 2010 Next plc purchased the 5, 928, 082 ordinary shares at 10 pence each at the open market at the cost of £120. 1 Million, whereas in year 2009 next purchased the 3, 900, 000 ordinary shares at the cost of £53. 6 million.

Debt finance:-

In year 2009 the total finance next plc has 567. 8 million where as it was reduced in year 2010 it is £ 520. 9. The coupon rate next has issued 5. 25% and had a nominal value of the £300 million.

Figure 8. Source Annual Report 2010 Corporate Bonds

Figure 9. Source Annual Report 2010 Non-Current Liabilities

" Next plc has purchased a further £9, 500, 000 of its 5. 25% bond due September 2013 since the previous announcement on bond buybacks on 22 November 2009. A total of £45, 709, 000 of these bonds has been purchased for cancellation, representing 15. 2% of the initial issue and Following the repurchases, £254, 291, 000 of the bonds remains in issue"

(londonstockexchange. com, 2010).

Cash and Income generation:-

Diagram below shows that net income improved 20.40% from £302.40m to £364.10m in year 2010, and the return on Asset is 23.77%, and return on investment is 43.24%.

Figure 10. Source FT. com Net Income

The generated income in year 2010 is £530 million and the last year which was £478 million, the rise of 11% was also explained that the total interest paid is £25 million and in year 2009 it was £45 million, the significant profit increase is due to the increasing stores in UK and increasing retail space in UK. The growth in retail cloth and footwear industry prediction is also helps to achieve the significant growth in profit of the organisation (FT, 2010).

Figure 11. Source Annual Report 2010 Profit Before Tax

Earnings per ordinary share:-

Earnings per share are the indicator of the industry profitability, in calculating the capital required is an essential. The diagram below shown explains the next plc trend of the earning in year 2010 and 2009. Despite the challenging year Next Plc In year 2010 the basic earnings per share was significantly higher than the organisations past 5 years of performance, the 21% of increase in share earnings is proves the Next plc competitive financial and market position (London stock exchange 2010). The buyback share has also helps to achieve the 5% significant earnings per share.

Figure 12. Source London Stock Exchange 2010 Earnings per Share

The diagram below explains that the earning per share of the Next Plc was till 2008 was low as compares to the FTSE 100 and FTSE retailers, but the year 2010 shows the significant improvement in the performance as compare to other two bench markers.

Figure 13. Source Annual Report 2010 Performance Chart

Return on investment:-

As shown in appendix and diagram below, the return on investment of last 5 years average was 39. 92 where as in year 2010 return on investment was significantly higher. When return on investment concern the industry rate of return was 11. 59, sector rate of return was 2. 63 and S&P return on Investment was 7. 66 which was very low as compare to the actual Return on investment which NEXT Plc achieved in 2010, this shows the better and effective management of organisation towards the growth.

Figure 14. Source uk. reuters. com Management Effectiveness

Dividends Policy:-

Next Plc has the progressive dividend policy, after raising profit by 18% to £505 million and earnings per share 21% the board has sanctioned the 66 pence per share as a Dividend which is 20% more than last year (55 pence). The improving profit has been seen due to the development of the brand, products range, expansion of store, development of the online stores and cost controlling. Dividend cover remains healthy at 2. 8 times compared to

the sector average of 2.4 times. Given Next Plc expectation for further strong cash flow and the current level of cover, expect to raise dividends in the year ahead by at least 10%. Next has returned over £2.2 billion to shareholders by way of share buybacks and in excess of £900 million in dividends. This buyback activity has enhanced earnings per share, given shareholders the opportunity for capital (as well as revenue) returns and has been transparent to the financial markets.

1.6 Risk management

To manage and mitigate the risks Next Plc has used the derivative as a financial instrument, the group's treasury policy is reviewed and sanctioned by Board including authorised counterparties, instrument types and transaction limits, and principles governing the management of liquidity, interest and foreign currency risks. The Group's principal financial instruments, other than derivatives, are cash and short term deposits, bank overdrafts and loans, and corporate bonds. The main purpose of these financial instruments is to raise finance for the Group's operations.

Liquidity risk:-

The Next Plc manages its requirements in terms of cash and borrowing centrally to minimise net interest expense within risk parameters and ensures that the Group has sufficient liquid resources to meet the operating needs of its businesses.

Figure 15. Source Annual Report 2010 Liquidity Risk

It has been seen that as compared to the year 2009 the bank loan and overdraft has reduced in year 2010 to £4.7 million whereas in year 2009 it

was £ 121. 6 million and the trade payable in year 2010 is £379. 5 million which was £345. 9 million in year 2009. The total cash flow in year 2010 is £1104. 5 million which was £1121. 4 million in year 2009, the significant drop is due to organisation better management of the bank loan and overdraft. At 30 January 2010 the Group had committed borrowing facilities of £295. 0m (2009: £445. 0m) in respect of which all conditions precedent have been met and which expire in July 2010.

Interest rate risk:-

The Next Plc has exposed to fair value interest rate risk on its fixed rate corporate bonds and cash flow interest rate risk on floating rate bank loans and overdrafts. The forecast cash and borrowings profile of the Group is monitored regularly to assess the mix of fixed and variable rate debt, and the Group uses interest rate derivatives where appropriate to reduce its exposure to changes in interest rates and the economic environment.

Foreign currency risk:-

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products. Group policy allows for but does not demand that these exposures are hedged for up to 18 months ahead in order to fix the cost in Sterling. This hedging activity involves the use of spot, forward and option contracts. The market value of outstanding foreign exchange derivatives is reported regularly at Board level, and reviewed together with percentage cover taken by season and current market conditions in order to assess and manage the Group's on-going exposure. The Group does not have a material exposure to currency movements in relation to translation of

overseas assets or liabilities and consequently does not hedge any such exposure.

Foreign currency:-

As shown in the table below Next Plc uses derivative instruments in order to manage foreign currency exchange risk arising on expected future purchases of overseas sourced products during the next twelve months.

These derivatives comprise forward currency contracts and currency options, the terms of which match the terms of the expected purchase.

Figure 16. Source Annual Report 2010 Foreign Currency

1. 7 Performance of the Next and Sector:-

From below diagram it is shows that the return on Investment and Return on Equity has significantly improved in Next in year 2010.

Figure 17. Financial Progress 2010

Figure 18. Management effectiveness 2010

Figure 19. Financial Strength of Next Plc in 2010

From above two diagrams it is seen that management of the Next Plc is on the basis of return on assets, return on investment and Return on equity has significantly better as compares the Sector and Industry.

Figure 20. Source Google Finance Share Price Comparison

From above diagram which shows the comparison in between the competitors and FTSE100 index, it shows that since last quarter of 2008 the performance of Next plc is significantly better as compare to Mark Spencer Plc, Debenhams PLC and FTSE 100 index.

1. 8 Conclusion:-

On the basis of the above analysis it is concluded that Next Plc has good financial position and competitive advantages as compare to the industry competitors. The significant improving of profit of £505 million and Earnings per share and Dividend and revenue generation has shows the positive growth of the next Plc. There is control of the book value as seen from the balance sheet. The management are effective and the company is of high value. Next Plc obtains extra revenue from managing wise investments. There was a 7% increase in sales in this third quarter which forces a bidding war to erupt.

1. 9 Recommendation:-

On the basis of above discussion, various investor analysis and my analysis it is recommended that investor should hold the share of Next Plc. Next Plc has improved the performance on the basis of revenue, profit, dividend paid and Earnings per share. As shown in below diagram it is proved that financial condition of NEXT plc is very good and also expected to perform well in retail Cloth and footwear industry. Source UK Reuters. ComSource UK Reuters. ComSource UK Reuters. Com

1. 10 Appendices:-

Appendix: - A,

20102009 Working Capital 283. 1 million 360. 1 Million Total creditors days 66.
06 Days 69. 54 Days Quick ratio = (current assets - stock) / current liabilities 0.
961. 05 current ratio = current asset / current liabilities 1. 3731. 50 total
debtors days = debtors / credit sales * 365 58. 9654. 72

Appendix: - B,

Return on Equity (%)68. 6754. 38Gearing85. 0483. 54Interest cover ratio3.
53. 38Quick Ratio0. 961. 05

Appendix: - C,**ANALYSIS****Estimates****Mean****High****Low****1 Year Ago****SALES (in millions)**

Year Ending Jan-10213, 370. 893, 472. 103, 249. 40

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Year Ending Jan-11243, 474. 003, 532. 233, 417. 163, 405. 85Year
Ending Jan-12243, 573. 023, 674. 643, 453. 003, 519. 91

EARNINGS (per share)

Year Ending Jan-1023181. 24185. 53177. 30

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Year Ending Jan-1126214. 09228. 12200. 00177. 22Year Ending Jan-
1226229. 17253. 28196. 10190. 23LT Growth Rate (%)412. 0017. 609. 306.
89Source, ukreuters. co. uk Sales and Earnings Figures

VALUATION RATIOS

Company

Industry

Sector

S&P 500

P/E Ratio (TTM)11. 2519. 5012. 3018. 06P/E High - Last 5 Yrs.

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1. 900. 2319. 89P/E Low - Last 5 Yrs.

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0. 340. 065. 14Beta0. 960. 710. 961. 28Price to Sales (TTM)1. 132. 092. 452.

13Price to Book (MRQ)45. 572. 500. 902. 84Price to Tangible Book (MRQ)98.

664. 861. 0919. 19Price to Cash Flow (TTM)7. 7118. 186. 2010. 60Price to

Free Cash Flow (TTM)12. 8614. 106. 7547. 90% Owned Institutions

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DIVIDENDS

Company

Industry

Sector

S&P 500

Dividend Yield3. 361. 831. 071. 64Dividend Yield - 5 Year Avg. 3. 331. 391.

352. 48Dividend 5 Year Growth Rate9. 9911. 062. 09-6. 80Payout

Ratio(TTM)35. 1024. 1612. 5538. 57

GROWTH RATES

Company

Industry

Sector

S&P 500

Sales (MRQ) vs Qtr. 1 Yr. Ago4. 958. 498. 059. 41Sales (TTM) vs TTM 1 Yr.

Ago6. 058. 027. 518. 74Sales - 5 Yr. Growth Rate3. 5712. 469. 699. 98EPS

(MRQ) vs Qtr. 1 Yr. Ago22. 1180. 36245. 966. 03EPS (TTM) vs TTM 1 Yr.

Ago18. 77

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EPS - 5 Yr. Growth Rate 8.439.112.106.96
Capital Spending - 5 Yr. Growth Rate -7.306.615.044.90

FINANCIAL STRENGTH

Company

Industry

Sector

S&P 500

Quick Ratio (MRQ) 0.831.370.590.64
Current Ratio (MRQ) 1.231.910.760.95
LT Debt to Equity (MRQ) 608.3017.2126.05119.05
Total Debt to Equity (MRQ) 676.3628.9239.19174.09
Interest Coverage (TTM)

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10.390.3518.91

PROFITABILITY RATIOS

Company

Industry

Sector

S&P 500

Gross Margin (TTM)

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40. 7112. 1632. 66Gross Margin - 5 Yr. Avg. 28. 2644. 4224. 4429. 16EBITD
Margin (TTM)19. 45

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EBITD - 5 Yr. Avg18. 6012. 0310. 4718. 54Operating Margin (TTM)15. 979.
38-5. 96

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Operating Margin - 5 Yr. Avg. 15. 399. 815. 4916. 38Pre-Tax Margin (TTM)15.
319. 50-6. 0014. 93Pre-Tax Margin - 5 Yr. Avg. 14. 3910. 115. 3515. 98Net
Profit Margin (TTM)11. 125. 70-6. 7711. 09Net Profit Margin - 5 Yr. Avg. 10.
165. 873. 6011. 73Effective Tax Rate (TTM)27. 3777. 3515. 7251. 21Effecitve
Tax Rate - 5 Yr. Avg. 29. 4344. 8932. 6625. 46

EFFICIENCY

Company

Industry

Sector

S&P 500

Revenue/Employee (TTM)97, 73761, 607, 75821, 641, 280674, 027Net
Income/Employee (TTM)10, 8703, 893, 3601, 088, 33384, 519Receivable
Turnover (TTM)5. 9381. 3818. 1910. 38Inventory Turnover (TTM)

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4. 294. 406. 71Asset Turnover (TTM)2. 141. 110. 380. 55

MANAGEMENT EFFECTIVENESS

Company

Industry

Sector

S&P 500

Return on Assets (TTM)23. 778. 151. 745. 91Return on Assets - 5 Yr. Avg. 21. 048. 773. 565. 74Return on Investment (TTM)43. 2411. 502. 627. 59Return on Investment - 5 Yr. Avg. 39. 9213. 006. 237. 41Return on Equity (TTM)369. 2113. 685. 3217. 84Return on Equity - 5 Yr. Avg. 239. 3614. 989. 149. 20

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