Primark the global beauty market (abf, 2016). primark

Business, Industries

Primark is owned by ABF and it accounts for nearly 60 percent of ABF's pre-tax profits (Vincent, 2017). It is one of the largest clothing retailers in Europe. It has a total of 174 stores in the UK (ABF, 2016). The overseas stores are owned through other subsidiaries (Appendix 1)There has been a steady increase in the number of Primark stores opened worldwide over the years (Appendix 2). Primark's business plan is to " offers customers quality, up-to-the-minute designs at value-for-money prices" (ABF, 2016). Primark focuses more on word-of-mouth advertising than spending on advertising and PR campaigns.

" Primark's organic growth has been achieved through a combination of like-for-like growth and increasing selling space" (ABF, 2016). Primark has successfully entered the US market and is also making phenomenal growth in the global beauty market (ABF, 2016). Primark has joined some luxurious brands and is enjoying a boost in sales from tourists who are drawn by the cheap pound. In the current year sales have gone up by 10% which was mainly attributed by bargain- hunting visitors primarily from china. (Butler. S, 2017).

Total sales were forecast to increase by 11% (Sembhy. R, 2017). There has been no noticeable impact on customer spending in the UK since brexit. Primark has seen a fall in like-to-like sales of 2% due to unseasonable weather (Primark, 2016). The sudden inflation, early this year, affected the buying pattern of customers.

Shoppers suffered a big jump in clothing prices (Wearden, 2017). UK retail witnessed its lowest growth rate in 4 years (Inman, 2017). Average clothing prices jumped by 2. 4% between July and August 2017, with women's clothing becoming particularly pricier (Wearden, 2017). The ONS blamed the steep rise in the annual rate of inflation over the last year to 2. 9% in May, up from just 0. 3% in May 2016. (Inman, 2017) (Appendix 5).

The slump in retail sales, combined with the profit warning from sofa chain, has seen shares in the sector drop back sharply, with Next and Marks & Spencer. Year-on-year sales volumes increased by just 1. 5% in the past three months when compared with about 4% annual growth between 2014 and 2016 (Inman, 2017). Irrespective of all the pitfalls of the retail sector and the economy in the UK because of the fall in the value of pound, Primark is still standing strong and has been successful in generating revenue when compared to its major competitors M&S, Debenhams and Next (Appendix 3). 2. 2 Financial Position Primark is financed by a short-term inter-company loan.

For this analysis, the intercompany loan has been reclassified to long term liabilities. Before an IPO, it is advised that the intercompany loan be fully repaid to the parent company   2. 2. 1 Profitability and ReturnThere has been a steady growth in revenue from £25. 83bn to £29. 42, a CAGR of 3. 30% (Appendix 6), through new stores in the UK and in other countries (Table 1).

Irrespective of the effect of brexit, ABF had stated that Primark's margins would take a hit but would be offset by bigger margins in its sugar business (Farrell. S, 2016) Table 1: Profitability and return ratios for PrimarkThe Net profit margin, Gross profit margin and operating profit margin have increased from FY 13-FY16. ROCE has been fluctuating and one of the possible reasons could be fall in like-to-like sales. Primark has had considerable access to services from Ireland. Services include the format developed, the use of IP and know-how (Primark, 2016).

Adjustments have to be made regarding the same in the prospectus to represent profit as a representative of a stand-alone business and appropriate disclosures have to be made because disclosures reduces uncertainty around the business (EY, n. d). 2. 2. 2 Solvency, Stability and Efficiency The gearing ratio (after reclassification of intercompany debt) has decreased in FY16 when compared to FY 15, FY 14 and FY13. The reason for this decrease is due to the repayment of debts and increase in the shareholders equity from retained profits (Table 2).

Table 2: Solvency, Stability and Efficiency ratios for PrimarkInterest cover has improved over the years from 22. 6x in FY 13 to 34. 1 in FY 16. This indicates that there is no immediate solvency issues, but there are possibilities of the rates decreasing when converting to external funding at the current existing market rates. The current asset ratio indicates no solvency issues and Primark has good financial health in terms of repayment of its obligations. Acid test ratio is lower but is improving over the last few years. Inventory turnover days is 70.

0x and has increased when compared to the previous years, a possible major reason being the fall of sales due to unpredictable weather. 2. 2. 3 Shareholder and Investment ratiosTable 3: Shareholder and investment ratios for PrimarkThe number of shares has remained constant over the years. EPS has increased over the years from the increase in level of profits. Dividends have also seen a steady rise over the years. Dividend cover is handled by the parent company and is not under the control of Primark.

3. Industry Sector and Competitor Analysis 3. 1. Industry Sector There has been a small increase in the retail sales volume in the retail sector in UK over the last few years (Appendix 7) but of late the UK fashion retail sector is under strain due to the fall in the sterling (Sembhy, 2016). Clothing retailers have faced stiff competition with its competitors over the last 5 years.

Stiff competition has given rise to retailers increasing their online operations and also providing customers with added benefits like weekend delivery. Despite the rising competition and the other odds, revenue is on a constant upward trend. The sector is expected to grow at an annual rate of 1. 7% (IBIS world, 2017). It can be noted that there has been considerable increase in online sales that in-store sales. This may have an effect on Primark’s targets since it does not involve in online sales. UK’s clothing market is expected to grow by 16. 6% over the next 5 years to £51. 2bn (Market Research, n. d)