Cadbury company an analysis of financial statements

This analysis is to examine the performance of Cadbury in 2007 and 2008 from their financial statements which are shown below.

There is a significant improvement in Cadbury's confection revenues which increased 15% to £5. 4bn. Cadbury increased their price in their selling in 2008 for balancing the rise of their input cost and besides increased the price of their product, Cadbury also sleek their cost base, by decreasing in sales, to save their cost from labours, raw materials, and electricity, also Cadbury reduced their general and administration cost and in central overhead.

Because of this movement, from the table of income statement and balance sheet, there is a significant change in their operating margin which is 278 million pounds in 2007 and it increased to 388 million pounds in 2008. There is also a big increase in discontinued operation from 2007 to 2008, which Cadbury made profit 258 million pounds in 2007 but loss 4 million pounds in 2008, this was happened because in 2008, Cadbury got a transaction cost of separation of the Americas Beverages business, in this year, Cadbury completed the demerger of its American Beverages business and sell the Australia Beverages business.

From the table data that we had from Cadbury website, here are calculations to know about performance of Cadbury that each calculation has its own purpose. Mainly ratios have three important functions which are:

From ratios, it is easier for us to make a conclusion than from a financial statement itself, because sometimes financial statement is very complex, and it is hard for us to draw a conclusion from that.

Ratios provide a good benchmark that makes us easier to compare from one company to another.

Here are some ratios about performance of Cadbury which all calculation is in million pounds. From this ratio, we compare 3 years financial statements and the ratios are:

Profitability

Efficiency

Investment ratios

PROFITABILITY

Return on ordinary shareholders' funds (ROSF)

In 2007

Average shareholders' fund = (3696+4173): 2 = 3934. 5

ROSF = (407 : 3934. 5) x 100 = 10. 344%

In 2008

Average shareholders' fund = (4173+3534): 2= 3853. 5

ROSF = (366 : 3853. 5) x 100 = 9. 5%

Return on Capital employed (ROCE)

In 2007

Average total assets less current liabilities = (6855 + 6724) : 2 = 6789. 5

ROCE = (278 : 6789. 5) x 100 = 4. 095%

In 2008

Average total assets less current liabilities = (6724 + 5507) : 2 = 6115. 5

ROCE = (388 : 6115. 5) x 100 = 6. 345%

Operating Profit Margin

In 2007

Operating profit = 278

Operating profit margin = 278 : 4699 x 100 = 5. 92%

In 2008

Operating profit = 388

Operating profit margin = 388 : 5384 x 100 = 7. 21%

Gross Profit Margin

In 2007

Gross profit margin = (2195 : 4669) x 100 = 47. 01%

In 2008

Gross profit margin = (2514 : 5384) x 100 = 46. 69%

EFFICIENCY

Inventory days

In 2007

Ratio = (821 : 2504) x 365 = 119. 67 days (120 days)

In 2008

Ratio = (767 : 2870) x 365 = 97. 54 days (98 days)

Total asset turnover

In 2007

2006 = Fixed assets + current asset = 7815 + 2396 + 22 = 10233

2007 = Fixed assets + current asset = 8667 + 2600 + 71 = 11338

Average = (10233 + 11338) : 2 = 10785. 5

Ratio = 4699 : 10785. 5 = 0. 448

In 2008

2007 = Fixed assets + current asset = 8667 + 2600 + 71 = 11338

2008 = Fixed assets + current asset = 5990 + 2635 + 270 = 8895

Average = (11338 + 8895) : 2 = 10116. 5

Ratio = 5384 : 10116. 5 = 0. 532

Net asset turnover

In 2007

Average total assets less current liabilities = (6855 + 6724) : 2 = 6789. 5

Ratio = 4699 : 6789. 5 = 0. 688

In 2008

Average total assets less current liabilities = (6724 + 5507) : 2 = 6115. 5

Ratio = 5384 : 6115. 5 = 0. 88

INVESTMENT RATIOS

Dividend cover

In 2007

Profit available for dividend = 149 + 258 = 407

Ratio = 407 : 311 = 1. 31

In 2008

Profit available for dividend = 370 + (-4) = 366

Ratio = (366 : 295) = 1. 24

Dividend Payment Ratio

In 2007

Profit available for dividend = 149 + 258 = 407

Ratio = (311 : 407) x 100% = 76%

In 2008

Profit available for dividend = 370 + (-4) = 366

Ratio = (295 : 366) x 100% = 81%

Summary

Based on calculation above, we can summarise a few things. There is a relation between profitability and efficiency, which is ROCE = operating profit margin x asset turnover

In 2007

(278 : 6789. 5) = (278 : 4699) x (4699 : 6789. 5)

In 2008

(388 : 6115. 5) = (388 : 5384) x (5384 : 6115. 5)

It means that to improve ROCE, Cadbury has to improve their operating margins, from this Cadbury has increased their sales (increase their price of their product and reduce their cost), this method is effective, that we can see from their turn over which had increased from 4. 7 billion pounds to 5. 4 billion pounds in 2008.

Return on ordinary shareholders' funds (ROSF)

ROSF means to compares the profit that available for shareholders with their investment in business. ROSF uses average investment in the business, from the calculation of ROSF, we can see that the profit for shareholders had decreased from 2007 to 2008 which was 10. 344% in 2007 and 9. 5% in 2008, this was happened because in 2008 there was loss because discontinued operation which has explained from above.

Gross Profit Margin and Operating Profit Margin

Gross profit margin calculates about the difference between cost of manufacturing and the selling price, from that we have calculated on above, there is a slightly decrease from 2007 to 2008 which was 47. 01% in 2007 and it was decreased to 46. 69%. for operating margin, it calculates about operating profit that Cadbury received in every 100 pounds of sales, in Cadbury's financial statement, we can see that there is an increase from 5. 92 in 2007 to 7. 21 in 2008, which means that in 2007 Cadbury received 5. 92% as operating profit and 94. 08% going in cost, and also in 2008.

Inventory days

From this calculation, it calculated about planning how much inventory level that can cover for the sales, it means to calculate how many days that left before you run out your inventory and there will be nothing for your customers to buy. from the calculation, we can see that there was a decrease from 2007 to 2008 in inventory days, which was 120 days in 2007 and 98 days in 2008, it means that Cadbury in 2007 Cadbury had 120 days left to cover their selling so in that time if Cadbury did not produce their product, then they had 120 days to cover before they run out, and it had decreased in 2008 to 98 days.

Total asset turnover and Net asset turnover

Total asset turnover of Cadbury PLC in 2007 and 2008 were 0. 448 and 0. 532, whereas their net asset turnover in 2007 and 2008 were 0. 688 and 0. 88. Total asset turnover is based on total assets while net asset turnover is based on total assets less current liabilities. According to data in 2008, it showed that Cadbury got £ 0. 532 for every £ 1 of their assets and got £ 0. 88 for every £ 1 of their net assets. This situation indicated that Cadbury had loss £ 0. 468 per £ 1 of their assets and had loss £ 0. 12 per £ 1 of their net assets.

Dividend cover and Dividend payment ratio

Both of those ratios have same purpose which is to know how much money that the shareholders received from the profit of the company. In 2007, the dividend cover and dividend payment ratio were 1. 31 and 76% while the dividend cover and dividend payment ratio in 2008 were 1. 24 and 81%. It expressed that Cadbury got some profit which is £ 1. 31 per £ 1 that Cadbury paid out as dividend in 2007 and they got £ 1. 24 in 2008. Those percentages expressed the amount of profit that is allocated to pay the shareholders as dividend, so 76% and 81% of their profit has been paid out as dividend.

The Analysis of Financial Statements of Cadbury Competitor

Cadbury has several competitors in confectionary business which are Nestle, Mars, etc. In this case, we would like to compare Cadbury with Nestle because Nestle is the largest food and beverage company in the world.

Nestle also produces chocolate, gum, and candy same as Cadbury. The tables of financial statements of Nestle are shown below.

According to table that is shown above, we can analyze the financial statements of Nestle. There are several ratios that we can calculate which are:

Profitability

Return on ordinary shareholders’ funds (ROSF)

In 2007

= 20. 79%

In 2008

= 37. 92%

Return on capital employed (ROCE)

In 2007

= 20. 08%

In 2008

= 34. 58%

Operating profit margin

In 2007

= 13. 42%

In 2008

= 20. 91%

Gross profit margin

In 2007

= 58. 13%

In 2008

= 56. 93%

Efficiency

Inventory days

In 2007

= 75. 14 days

In 2008

= 72. 03 days

Total assets turnover

In 2007

= 0. 98

In 2008

= 1. 09

Net assets turnover

In 2007

= 1. 50

In 2008

= 1. 65

Efficiency

Acid test ratio

In 2007

= 0. 61

In 2008

= 0. 71

Investment ratios

Dividend cover

In 2007

= 2. 49 times

In 2008

= 3. 72 times

In 2008, turnover of Cadbury and Nestle were £ 5, 384 millions and £ 55, 174. 6988 millions, whereas the net profit of Cadbury and Nestle were £366 millions and £ 9, 563. 75502 millions. From those data, we can compare both of their performance in 2008.

Cadbury

= = 0. 068 = 6. 8%

Nestle

= = 0. 173 = 17. 3%

Based on those results, it looks Nestle has a better performance than Cadbury. Nestle has a lot of variety of products that they have sold and Nestle company is also has wider market than Cadbury. The categories of Nestle products are baby foods, breakfast cereals, chocolate and confectionery, beverages, bottled water, dairy products, ice cream, prepared foods, foodservice, and pet care. (ANSWERS. COM http://www. answers. com/topic/nestl-sa).

That reason is the one of many reasons that is causing Nestle performance is better than Cadbury.

However, if we observe in one category such as chocolate and confectionary, Cadbury has a good market rather than Nestle. Cadbury is the second largest candy factory in the world after Mars and the second largest gum factory in the world after Wrigley.