

MADE L7

Assessment 1 – Report

MSc Financial Management & Planning

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Summary

The purpose of this report is to examine the Aston Martin annual reports for the last two years, including the current Q3, calculate the ratios, and determine whether there is an opportunity to invest £5 million in a joint venture.

The review also included what external factors impacted Aston Martin, the strategies implemented, and the impact of the organizational structure change.

The Aston Martin share price seems to have plummeted since 2018 however there are reason for this, in 2020 the share price IPO was altered due to rights issues. This meant the share price was adjusted from £19 to £10, a split stock of 2:1 also happened however over the next two years this has now nearly doubled to £17 YTD.

Except for net profit, all profitability ratios have improved since 2020, with the main driver being DBX sales, primarily in the United States and East Asia. Stroll (CNBC, 2022) explains how 6,000 units were sold and how a roadmap is in place to reach 10,000 units by 2024/25, making the company cash flow positive and low risk. The ratios confirm that they are not yet cash flow positive and have lost money, but they are not in a loss position as in 2020; the net loss is due to the additional cost of investments required to re-align the strategies.

Within the annual statements there are several milestones that were required to get the company pack to becoming profitable,

1. Become fully funded to implement the road map for 2024/25, this has be achieved by the completion of point 2.
2. DBX SUV to be a success through 2023/24 filling order books, understanding customer confidence.
3. Structure review, introduction of Tobais Moers from AMG of 26 year to become CEO/CTO.
4. Integration of Mercedes powertrains into the car brand and also pull on the technology incorporated in the Formula 1 team via Mercedes.

- Development of a production range that takes the company past 2025, this is the adaptation of the EV & Hybrid technologies along with utilizing the marketing touch point around 21 dealerships which are linked through the Formula 1 calendar.

Looking at the ratios, we can see that profitability, liquidity, activity, and leverage ratios have increased or reduced their negative values, despite some minor drops from 2021 to 2022 Q3. Only the net profit is in a negative state due to investments, but liquidity has significantly increased where cash flow is available and borrowings are available.

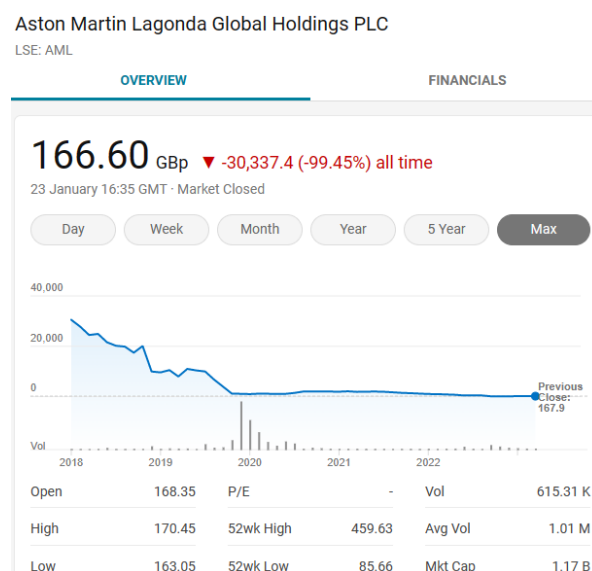
The activity ratios, along with the long term debt equity ratio, can only be seen through 2020 to 21. The activity ratios are positive over the previous year, debt collection, stock turnover, and time to pay debts have all improved. The long term debt equity for 2022 cannot yet be calculated due to inventories not being available, but with stock moving at a faster rate, this should improve.

When the elements within the leverage ratios are all positive or have decreased in their negative value, it sends a confident message to lenders that assets are available for cash flow and that the company's liabilities are less of a risk.

As we can not calculate the EPS ratio we can not use this value to calculate any others, however (PhD, 2022) highlights how there has been a significant drop in production rates compared to other automotive business.

Detailed review

The Aston Martin journey since 2020 has been somewhat of a challenge, this can be seen by the public through their share price, but this has been the case since 2018, as the data below shows.



Although the share price has dropped this does not represent the entire picture, in 2020 (Finch, 2021) highlights how Lawrence Stroll acquired a 20% stake in the company with an £182 million pound investment.

In a separate venture Lawrence Stroll purchased Force India F1 team when it came out of administration, (Scott, 2022) highlights that by 2020 Stroll led a consortium to take the above stake to

support the return of Aston Martin by to Formula 1. (Baldwin, 2018) shares details that as part of this venture Stroll also paid over £20 million in debts to supplier and staff.

Stroll keeps the businesses separate to each other, his main aim for Aston Martin Lagonda stated in the 2022 Q3 results compiled by (Felisa, 2023) comes three fold looking at supply chain, ways of working and securing future product delivery.

Since taking over, Stroll has invested over £1 billion and begun restructuring the organization; the first step was to hire Tobias Moers as CEO/CTO. The main goal was to deliver the DBX SUV while also integrating the relationship with Mercedes Benz, which is in line with the Formula 1 venture.

The ratios below show how this has impacted the overall business and what benefits have been understood.

Explanation around the use of the financial statement

A financial statement provides a clear picture of where your company stands in terms of profit and loss. (FreshBooks, 2021) identifies three types of statements that can be used to achieve this,

1. Balance sheet
2. Income statement
3. Cash flow statement

By reviewing the above data, business decisions can be made about which products are selling best, where improvements are needed to reduce costs, and whether the direction of the business is still creditable and thus worth retaining.

The balance sheet is a snapshot of what a company owns and owes, it is used in-conjunction with the income statement, which focuses on profit (revenue) vs income (sales), and the cash flow statement, which focuses on how much cash is generated and how it is spent throughout the financial year.

1. There are limitations within the balance sheet (Wikiaccounting, 2023) highlights the below,
2. Valuation of internally generated assets - The balance sheet will only include purchased assets; any assets developed in-house, such as test equipment, databases, software, or communication tools, will be excluded.
3. Miss-stated long term assets – IT assets (AR software and hardware, digital factory integration) will not have a true value recorded. The records will show a calculated depreciation record, indicating that these items will be worthless in 12 months.
4. Snapshot at a particular date – If a balance sheet is manipulated to look healthy by collecting cash at the end of the year, it can provide a misleading figure on how cash is generated.
5. Comparisons – Because a snapshot is only one point, it is critical to benchmark at multiple points throughout the year to determine whether or not anomalies exist. This can reveal whether figures have been manipulated in order to produce a healthy balance sheet.
6. Off – Balance sheet items – In some cases not all figures are included within the balance sheet

When considering a larger organization, there are additional reasons why we would use a balance sheet to our advantage in addition to the usual aspects of growth, costs, and external investments. (MOHAMMED, 2021) provides several other critical reasons why these are used, one of which is engagement for all relevant areas to see performance giving key directions. Furthermore, common problems or deterioration can highlight weaknesses in areas, such as if assets begin to decline, which would be a risk to the business in terms of cash available to pay debts or build new assets through investments. With this in mind, it can also highlight how much debt can be handled within the business, which can also contribute to what creditors or bank borrowings will allow.

Calculations of ratios

The below provides data from 2020, 2021 & Q3 2022, items highlighted in red identify where data was missing from annual report so ratios could not be calculated. (Additional in-depth excel document also submitted for validation purposes). Also ratios are highlighted red, amber & green to indicate a positive or negative movement.

	2020	2021	2022 Q3
Profitability Ratios			
Gross Profit Margin	18.16%	31.38%	31.09%
Operating Profit Margin	-52.78%	-6.98%	-18.54%
Net Profit Margin	-67.10%	-17.28%	-72.33%
Return Assets	-14.69%	-6.66%	-6.72%
Return on Equity	-51.05%	-28.66%	-29.07%
Liquidity Ratios			
Current Ratio	1.100458	0.958794	1.307721
Quick Ratio (or acid test)	0.84387	0.741383	
Cash Ratio	0.605468	0.462771	0.653583
Activity Ratios			
Days Sales Outstanding (DSO)	106.6721	81.81092	
Inventory Turnover	2.414176	3.819106	
Days Payable Outstanding (DPO)	427.4735	354.8989	
Leverage Ratios			
Gearing Ratio	59.52%	65.91%	66.04%
Debt / Equity Ratio	247.57%	330.42%	332.38%
Long term debt / Equity Ratio	134.91%	180.07%	
Interest Coverage	-328.15%	-50.56%	-46.10%
Investor Ratios			
Earnings per Ordinary Share	(543.0p)	(165.9p)	
Dividend Cover			
Price per Earning Ratio			
Dividened Yield Ratio			

	2020	2021	2022 Q3
Profitability Ratios			
Gross Profit Margin	18.16%	31.38%	31.09%
Operating Profit Margin	-52.78%	-6.98%	-18.54%
Net Profit Margin	-67.10%	-17.28%	-72.33%
Return Assets	-14.69%	-6.66%	-6.72%
Return on Equity	-51.05%	-28.66%	-29.07%
Liquidity Ratios			
Current Ratio	1.1005	0.95879	1.30772
Quick Ratio (or acid test)	0.8438699	0.74138	
Cash Ratio	0.6054683	0.46277	0.65358
Activity Ratios			
Days Sales Outstanding (DSO)	106.67212	81.8109	
Inventory Turnover	2.4141755	3.81911	
Days Payable Outstanding (DPO)	427.47354	354.899	
Leverage Ratios			
Gearing Ratio	59.52%	65.91%	66.04%
Debt / Equity Ratio	247.57%	330.42%	332.38%
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Critical evaluation of ratios

Profitability Ratios

This group of ratios examines a company's performance in terms of revenue and profits, gross examines COGs (labor and materials), a higher gross indicates that a company can pay operational expenses while still having money to invest. Operating looks at profitability before taxes or other non-operating expenses are deducted, the benefit of this is that this figure can be used as a benchmark more easily to see where we are within the industry sector. Net is the inverse of this figure, it is after tax is deducted, however as previously stated in this paper, this figure is not always accurate because

it includes investments or large purchases. Return assets are assets that can be converted into cash, if a company has few debts but many assets, it will be less risky when looking for investments. Return on Equity examines profit vs. shareholder holdings, and is similar to return on assets in that it examines how well the company can return profits using the shareholders investments.

There are some industry standards for gross and net profits that we can use for comparison. According to (Shneir, 2022), a health gross profit margin should be greater than 21%, with a net profit margin greater than 12% in the automotive sector. As we can see from the calculations above, the net profit margin is heavily in the negative, as this is the profit from total revenue. (Team, 2022) explains that, while this may appear to be a negative point, it can also include a lot of "noise" by which a large outlay or investment may be included in this calculation. The operating profit has decreased significantly, which could indicate that the company has taken a different path, possibly reducing operating costs (cogs).

Liquidity Ratios

This group of ratios examines how the company manages debts, it provides a guideline for how many times a debt can be paid off if the company falls on hard times. The current ratio only considers the company's ability to pay off short-term liabilities with short-term assets, the quick ratio also known as the acid ratio, is similar but excludes assets held in inventory. The cash ratio examines how the company can pay off short-term liabilities with cash generated from asset sales.

Through the review period the current ratio has increased to 1.3 showing that assets have increased, these then can be converted in a form of 2:1 ratio of liabilities. (HAYES, 2022) describes that the liquidity ratios show how easily cash can be provided to pay bills and short-term payments.

The cash ratio has increased by 0.19 in 2021, but it is still less than one, which may be due to a lack of sales within the vehicle range. Because the range from 2020 to Q3 is also less than one, we can assume that cash is not being used properly to generate profit.

The acid ratio test has also indicated a reduction by 0.10, this could indicate that the borrowings are costing the company more than it should.

Activity Ratios

This group of ratios includes DSO (days sales outstanding), inventory, and DPO (days payable outstanding). These primarily examine how stock is managed and whether we are paying for and invoicing for stock on time. The longer it takes to achieve the DSO or DPO, the more likely the company has poor controls as well as cash flow issues. Stagnant inventory also indicates products that are no longer relevant or wanted, all of which pose a risk to the business and a lack of confidence to lenders, creditors, and investors.

Inventory turnover has increased by 1.4, implying that inventory is moving faster and obsolete stock is not being held. However, (KalkineMedia, 2022) points out that this is not always the case; overstocking from the previous year and a lack of manufacturing can both indicate that inventory turnover is good when it is not.

DSO (days of sales outstanding) has been reduced by 25 days since 2020, but there is still an 80-day collection period before credit becomes cash. A high DSO could indicate cash flow issues for the business; (Team, 2022) suggests that one of the most common reasons for this is that sales teams frequently offer longer repayment plans to attract customers; this also includes credit purchases to boost sales.

DPO (days payable outstanding) has reduced by 17% on 2020 however is still high this be due to the company struggling to find the cash to make repayments. An additional effect to this is that creditors may stop providing competitive credit deals or only provide short term agreements due to the lack of confidence around repayments.

Leverage Ratios

This group of ratios examines how the company manages its debts and borrowings through the business, if these ratios are high, there may be a lot of risk in the business because overall finances (assets) will not cover these failures.

The gearing has increased from 2020 by 6 to 7% by Q3 to 66%, (BOYTE-WHITE, 2021) suggests that a gearing ratio below 25% provides low risk to a lender however over 50% provides high risk. When a company is in this situation and funds are not available, there is a greater chance that the company will be unable to make payments.

The debt to equity has risen by 34% since 2020 and the share holder equity also has risen through that timeline, the total assets have also grown out weighing the total liabilities.

Long-term debt to equity ratio increased by 46% from 2020 to 2021, (Collective, 2021) imply that the increase in this ratio will mean the company is incurring more debts and increasing the risk of financial failure.

In this case, the ICR (interest coverage ratio) is decreasing, which is not a good sign. (HAYES, 2022) emphasises that this determined how many times a company could pay off its outstanding debts. This demonstrates that a negative operating profit lends evidence to show that there is risk here and that debts will not be able to be covered multiple times if the market becomes unstable.

Investor Ratios

This group of ratios not only provides an outlook for the general public via share price, but also a more detailed view for lenders or large investment groups via how quickly an investment will pay back its returns.

While we have limited data on the share price, it is clear that it has decreased by 377.1p; however, we must remember that Aston Martin also went through a stock split in December 2020, as confirmed by (A5SA.F, 2020). There are reasons to split stock, primarily for the public to be able to buy into the company at a lower price; the company now has more shares, but there appear to be no negatives as the share could potentially rise. Overall, it is a method of attracting new customers to the company, in this case, the YTD share price is 170.0p, so investing during this time period has not yet resulted in a profit.

Conclusions highlighting recommendations

Should we make a £5 million investment in Aston Martin? No, we will go over the areas listed below and make some suggestions for how the company can improve. The company's figures appear to be improving at first glance, but in the background, continued high investments like Stoll's are what are keeping the company afloat. The number of vehicles sold cannot cover the general liabilities and borrowings, and the assets are dwindling, in contrast to other luxury car manufacturers like Porsche & Ferrari (PhD, 2022) highlights how they have support companies beneath them help to fund these ventures.

In the preceding summary, we have already seen some answers to why the numbers are where they are, as well as the roadmap of where Aston Martin is headed, the de-risking of how the company and how it is now fully funded to deliver in 2024/25.

When looking at the profitability the company general is making money and reducing the loss once being made, (Cabrera, 2022) highlights that within this area to make further improvements the business can look at reducing high interest rates on loans, this is easier when there is less risk in the business. Review purchase of parts, with order books full on one product can bulk purchase with higher discount be available. The other is looking at a relationship with industry 4.0 standards, can streamlining production processes and layout reduce the costs further.

When we look at the business's liquidity, we can only see so far as the company is able to pay off its short-term liabilities and generate cash from assets. (MAVERICK, 2021) suggests that to improve these figures, pay off short-term liabilities faster and move to longer-term financing with better terms, as well as shorten receivable processes, invoice quickly, and pay on time, and for payable terms with long pay times are more favorable.

The business has improved on its activity ratios however can be furthermore improved, (Transparency, 2023) highlights how improving the inventory management by improving efficiency in the collection of receivables and reviewing inventory quantities will influence these ratio to become more positive.

Leverage has been an issue for the company over the last three years, however this is improving, (Freedman, 2020) believes that the best way to maintain these gains is to focus on keeping head count and other operating costs to a bare minimum, the current re-structure has addressed this and will continue to do so.

When looking at investments in this business share prices have nearly doubled since 2020, the below extract from (PhD, 2022) in December suggests that there is potential for a significant return based on shares, this would not be the same for an investment.



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