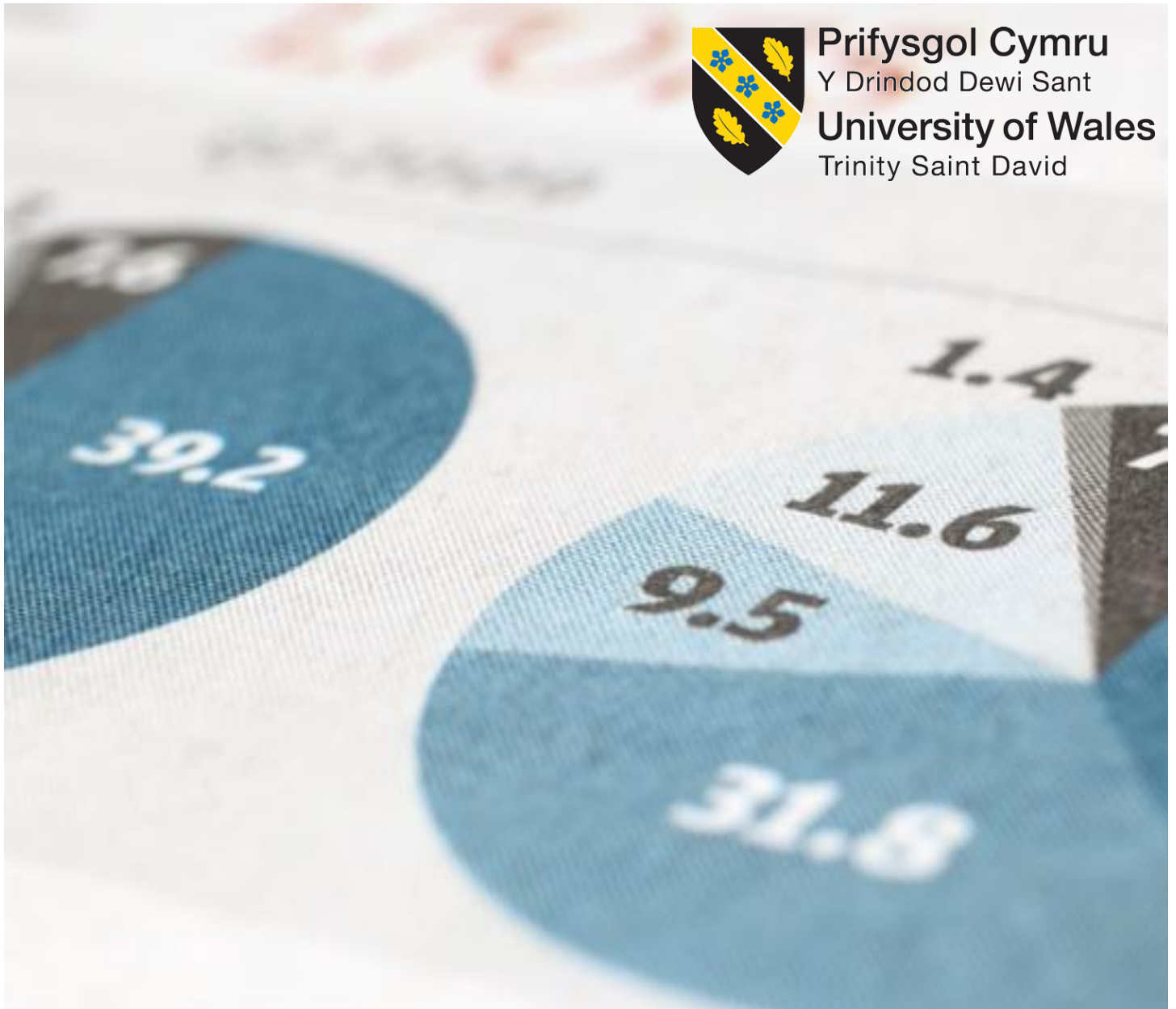




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Next plc

Ratio analysis 2016 – 2020

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**Assignment 1 -
Financial Management
(LCMB7002)**

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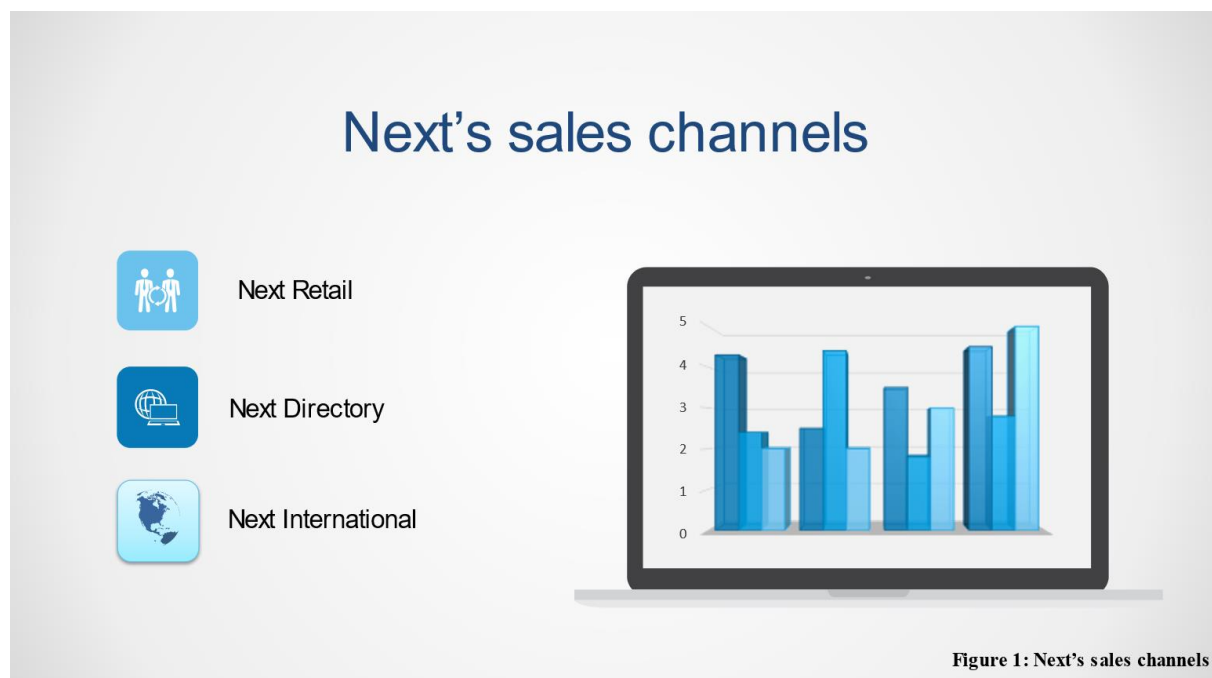
1. Introduction

NEXT plc is a British company which has 700 stores around the world, mostly in the UK with 500 stores, and over 19,000 employees. It is an important clothing retailer, and one of its major competitors is Mark & Spencer. The headquarters of the company is in Leicestershire.

Next plc started in 1864 and it was founded by Joseph Hepworth, the first name of the company was Joseph Hepworth & Son. In 1982, the company change its name to Next plc under the direction of George David.

Next plc has three fundamental sell channels:

- 1.- Next Retail: sells through its branches in the UK.
- 2.- Next Directory: online sells with more than 3 million active customers.
- 3.- Next International: It transacts through its branches around the world.



The business model of the company is to sell designs of quality but with a responsible source, and the prices have to be accessible. The company source from 41 countries, mainly China, Vietnam, India, Pakistan, Sri Lanka and Turkey. Next plc sells hundreds of third-party clothing and home brands, and it also has its own product.

On the other hand, also of its 500 stores in the UK, the company has 7 depots and 8 warehouses. Next plc created Lipsy which is a subsidiary that designs and sells the products of Next plc. In the same sense, Next plc founded Label which sells online third-party brands. In 2020, Label sold over £500m of third-party brands.

The main idea of the business is that the customers can choose between a variety of products of third-party brands and the Next plc brand. The company has an important infrastructure with distribution channels.

Next plc has 1.5 million overseas customers, and it sells online to 70 countries. An important aspect of its business is the company offers flexible credit financing, approximately £1.4bn of credits are provided to customers.

In February 2017, Michael Roney was Deputy of the company, and in August 2017 became Chairman. Since 2001 Lord Wolfson of Aspley Guise is Chief Executive of the company. Also, Amanda James is the Group Finance Director since 2015. Others important roles of the Next plc are:

- Richard Papp, Group Merchandise and Operations Director, since 2018.
- Jane Shields, Group Sales and Marketing Director, since 2013.
- Francis Salway, Senior Independent Director, since 2010.
- Dame Dianne Thompson, Independent Non-executive Director, 2015.

Except for the fall in 2017, which we will later analyze financially, the company has shown great growth as we will see in the analysis of ratios.

2. Financial Analysis

This paper is based on the Balance Sheet and Income Statement of Next plc during the last five years, and the Balance Sheet and Income Statement of Marks & Spencer of 2020 (see Appendix 1, 2 and 3).

Thus, Balance Sheet is an analysis of the way the company holds its wealth (McLaney, 2011). It is a tool important because each company needs to see what its current situation is and to have information to operate in the future.

However, a disadvantage is that there is a tendency of the companies to overstate the Income Statement, and in the Balance Sheet figure too understate the amount of wealth that is tied up in the business (McLaney, 2011).

Understanding a Balance Sheet is fundamental for the managers who need the information for decision-making (Mohammed, 2019), the Balance Sheet is a guide that determines how the company needs to grow.

In the same sense, Atrill & McLaney (2010) remark that Income Statement and Balance Sheet are not substitutes, because Income Statement shows the flow of wealth over a period, and the Balance Sheet shows the numbers in a single moment in time.

On the other hand, ratios can be divided into five categories: profitability, efficiency, liquidity, financial gearing, and investment, these aspects are the financial ratios (Atrill & McLaney, 2017). We are going to analyze some components of the financial ratios in our real example to understand what was and is the evolution of Next plc.

Similarly, Marsh (2012) affirms that ratio analysis is the best way to understand financial performance because we can compare between other periods of the same company and of other companies.

Also, we are going to calculate and analyze the profitability, liquidity, gearing, and efficiency ratios for the past 5 years of Next plc and to make a comparison with Mark & Spencer. The

formulas can be found in the respective appendix (see Appendix 4).

2.1 Brief introductory analysis

2017 was a bad year for the company, the sales fell -1.91%, and its Gross Income also fell -8.5%. In consequence, Simon Wolfson, the Chief Executive of Next plc, said that 2017 was the toughest year in the past 25 years (Wood, 2018).

In this sense, inflation and other faulty strategic decision of the company were the main reasons for that catastrophic year. During 2018, the revenue of the company continued to decline by -0.16% but was lighter. Then, the company recovered its growth to 1.87% (2019) and 2.37% (2020).

On the other hand, after the fall of 2017, Gross Income had a growth of 9.78% (2018), 12.88% (2019) and 4.78% (2020). This tool is important because measures how much the company generated before paying for overheads (Anon, 2005).

Net Income of the company also suffered a fall -4.7% (2017) and -6.85% (2018), but subsequently grew to 1.23% (2019) and 1.85% (2020). Net Income is the Gross Income less all the other cost of the company where they are included the cost sales (Law, 2016).

Finally, the Total Assets of the company suffered similar changes because in 2017 it fell by -3.21%, but the following years it recovered its growth with 6.52% (2018), 46.11% (2019) and 1.85% (2020).

In this sense, we need to remark that in 2015, the company changed its strategy of sells because Next Directory introduced orders by midnight for delivery the next day. This service produced an increase in sales online from £ 1.5m in 2015 to £ 2.1m in 2020.

2.2 Profitability

2.2.1 Gross Margin

This ratio is a measure of profitability in buying and selling goods or services, but it is before any other expenses are considered (Atrill & McLaney, 2010). Thus, Gross Margin is a calculate of how much profit you are making on each unit of sales after variable costs alone (Cinnamon, & Helweg-Larsen, 2006).

Next plc	2016	2017	2018	2019	2020
Gross Margin	35%	34%	34%	37%	37%

Gross Margin grew during the last five years, with exception in 2017 and 2018 which descended slightly, but the margins were better in subsequent years, from 35% in 2016, to 37% in 2020. Gross Margin of Next plc show us a constant growth of the company measured through its profitability.

2.2.2 Operating Margin

This ratio is appropriate to calculate operational performance when we need to use it as a basis for comparison (Atrill & McLaney, 2010). It is also a tool to measure the level of profitability, but it indicates how much sales were generated after payment of all the operating expenses. Operating margin is also known as return on sales. If the Operating Margin is high, it is better

for the company. In our case, Next plc keeps a similar level during the last five years.

Next plc	2016	2017	2018	2019	2020
Operating margin	21%	20%	19%	20%	20%

2.2.3 Net profit Margin

This tool is calculated by dividing the Net Income and Sales of the company. Marsh (2012) clarifies that we can use this method to compare like with like.

Next plc	2016	2017	2018	2019	2020
Net profit Margin	16%	15%	14%	14%	14%

In this case, the company has suffered a slight decrease. In 2020, Next plc keeps £0.14 for every £1 in sales revenue. That is good percentage, and it shows us that the company is financially stable.

2.3 Efficiency

2.3.1 Asset Turnover

Cinnamon, & Helweg-Larsen (2006) remarks that Asset Turnover is also a measure of how effectively the company is using all the money tied up in the business.

Next plc	2016	2017	2018	2019	2020
Asset Turnover	1.79	1.70	1.59	1.11	1.16

This ratio is a measure of the efficiency used to analyse how the company utilizes its assets to produce revenue. From January 2016 to January 2020, the company deteriorated its ratio from 1.79 to 1.16. Walsh (2008) says that an Asset Turnover of between 1.3 and 1.5 is a comfortable and profitable position for the company. Next plc also kept in 2020 a good average, very similar to 2019.

2.4 Liquidity

2.4.1 Current ratio

The current ratio is a basic formula that compares the current asset with the current liabilities. Current ratio is part of liquidity ratios that are used to assess how the company manages its working capital (McLaney, 2011).

Next plc	2016	2017	2018	2019	2020
Current ratio	1.4 times	2.3 times	2 times	1.6 times	2.1 times

When this ratio is high, the businesses have more liquid. However, to have a high Current ratio is not always positive, because if a business has a very high Current ratio, the company has excessive cash and it not possible to use it productively in other assets (Atrill & McLaney

2010).

In this case, in 2020, Next plc has £2.1 of current assets to pay for every £1 of current liability. That show as that the company is in good financial health.

2.4.2 Quick ratio

This tool is similar to Current ratio, but the difference is that the business needs to spend additional funds to 'liquefy' its inventory (Fields, 2011).

Next plc	2016	2017	2018	2019	2020
Quick ratio	0.987	1.668	1.454	1.185	1.50

In the Quick ratio, Inventory is removed due to its liquidity which may be a problem. We can see that the company grew in its liquidity. In 2020, Quick ratio of Next plc show us that the company has £ 1.5 of liquid assets to pay every £1 of the current liabilities.

2.4.3 Cash ratio

Cash ratio is important because a business with a cash deficit may lack the resources required for growth (Steffan, 2008). In the same sense, Walsh (2008) maintains that a company needs to have enough cash to pay all its bills, even though the companies with less cash are generating good profits.

Next plc	2016	2017	2018	2019	2020
Cash ratio	0.06	0.06	0.06	0.1	0.09

We need to understand that Cash the liquidity of the company, it means cash and cash equivalents. In our case, we can see that Next plc is a company that this year had less cash due to the credits to its customers. This system is growing with the customer of the company, and it could be a problem because a cash deficit does not cover the costs.

2.5 Solvency

2.5.1 Debt-Equity ratio

It is a measure of the impact of long-term lenders to the long-term capital structure of a company (Atrill, 2014). In this sense, Debt-Equity ratio calculates the combination of resources that have been provided by the owners and those which have been borrowed (Walsh, 2008). In other words, Deb Equity ratio present the numerical equivalent to the concept of capital structure (Karanović, Nikolić & Karanović, 2019).

Next plc	2016	2017	2018	2019	2020
Debt-Equity ratio	6.5	3.7	4.3	9.2	7.3

In 2020, Next plc reduced its Debt-Equity ratio to 7.3. This is a good indicator for the organization because a higher ratio can be understood as a risk for the creditors, instead, a smaller ratio reflects a safer position financial viability (Falk & Steiger, 2018). In the same sense, Jonny (2016) affirms that Deb-Equity ratio shows safety on its creditors.

2.5.2 Debt – to – Capital Ratio

Debt to Capital Ratio measures the risk to its stockholders, and it is also a method to analyse what the borrowing of the company is and what is the capacity to pay scheduled financials (Anon, 2007).

Next plc	2016	2017	2018	2019	2020
Debt – to – Capital Ratio	87%	79%	81%	90%	88%

Deb – To – Capital Ratio shows us the financial structure of the company. In this case, Next plc shows us that in 2020, 88% of the capital structure of the company contains debt. This can be a problem because it means that 88% of the operations of Next plc are funded with debt and it is not financed with capital. This is risky because the company is financing a big part of its growth activities with debts (What Is the Debt-to-Capital Ratio?, n.d.).

2.6 Financial comparison: Next plc and Marks & Spencer

2020	Revenue	Net Income	Net margin	Operating profit	Gross Income	Gross Margin	Income
Next plc	4,266	610.20	14%	0.20	1,682	39.43%	
M&S	10,181	24	23%	0.06	2,924	28.72%	

Next plc and Marks & Spencer are two competitors in the clothing retail market, even though Marks & Spencer sells another kind of products as well. We need to have in mind that M&S is a company that double the number of stores and employees compared to Next plc. However, we are going to see that the numbers are not totally favorable to M&S.

During 2020, M&S had a revenue major with £10,181bn in comparison with Next plc which had £4,266bi, but if we analyze the growth, M&S fell by 1.88% in its revenues in comparison with 2019, in contrast with Next plc which grew 2.37%.

A similar situation happens with the Net Income. Next plc grew 2.37% in comparison with 2019, but in 2020, M&S fall by 43.17% in comparison with the last year. As we saw previously, Net Income is an important tool to analyse how the management is running the company.

During 2020, Gross income in Next plc grew by 4.78% in comparison with M&S which fell by 3.49%, in comparison with 2019. Similarly, in 2020 the Gross Income Margin of Next plc grew by 39.43% while M&S grew 28.72%. In this sense, this method is important in analysis about retailers because we can measure the skill to buy and sell at advantageous prices (Fridson & Alvarez, 2002).

In the same sense, in 2020, Operating margin of Next plc grew 14.32% while M&S only grew 5.80%. Thus, Fridson & Alvarez (2002) refer that Operating margin is a good tool to show how the company operates before taking into account financial policies and the tax rate. In this sense, Next plc has a better run of the operations.

We can understand that the growth can be slower when the company has numbers of sales and cost of sales higher, but it is important to remark that Next plc keeps growth constant. In this

sense, Next plc knew how to adapt to the new times where it is vital to selling online.

Finally, we could see that the company understood that Touchpoint Digital is a great alternative to sell and to grow in these times. Thus, to sell online was a great step by Next plc, even more, when the company offers that the purchase will arrive in the 24 hours.

Unfortunately, we can see that the company has a high Debt – to – Capital Ratio, this can create risk about its capital structure. In addition, a low Cash ratio is not a good indication about the possibility of the company to pay its debts quickly.

We think that a good way would be offer credits with fewer periods. This can help the company to have more liquidity, even though it is important to have a balance because a high cash is not recommended either. The company should expand further by selling online through a more aggressive marketing strategy, thus reducing its employee and store pay expenses.

3. Investment appraisal techniques to evaluate two different projects

Year	Projected Cash Flows (£m)	
	A	B
0	-85	-90
1	10	25
2	20	30
3	40	35
4	55	40

Weetman (2013) remarks that PBP, ARR, and NPV are methods to provide information for capital investment appraisal, and they have advantages and disadvantages. In this sense, capital investment appraisal is a procedure that provides information to decide about some project.

3.1 Payback Period (PBP)

PBP method estimates the length of time necessary for the flow of cash inflows from a project to equal the original cash cost (Weetman, 2013), it is a reflection of risk (Field, 2011). This technique is used especially when it is necessary that the cash invested come back in the shortest time.

In the same sense, Atrill & McLaney (2010) say that PBP is the size of time it takes for an original investment to get back of the set cash inflows from a project.

-Project A:

	Project A	Cumulative CF
0	(85)	
1	10	10
2	20	30
3	40	70
4	55	125

$10+20+40 = 70 - 85 = 15/55 = 0.27 = 3.27 \text{ years.}$	$3 \text{ years} + (85 - 70) / 55 = 3.27 \text{ years.}$
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-Project B:

	Project B	Cumulative CF
0	(90)	
1	25	25
2	30	55
3	35	90
4	40	130

$25+30+35 = 90 = 3 \text{ years.}$

Weetman (2013) emphasizes that the most essential measure of achievement in outlay is that it offers the shortest payback period. Thus, Atrill & McLaney (2010) suggest that the project with the shorter payback is the best.

On the other hand, an advantage of PBP is easy to calculate and easy to understand (Atrill & McLaney, 2010). Thus, Marsh (2012) concludes that PBP is the simplest method used.

A disadvantage of this method is that it does not study the commercial risks to the cash flows. Another limitation is that PBP ignores the costs in a long-term project as interest charges (Weetman, 2013). Thus, PBP does not take into consideration cash flow after payback period. It completely ignores the time value of money (Davies & Crawford, 2011), In this sense, project B is better because the Payback Period is of less time.

3.2 Accounting Rate of Return (ARR)

It is a different method of PBP because it uses profits to calculate and includes depreciation. Weetman (2013) explains that ARR is determined by taking the average annual profits estimated from a project as a percentage of the capital invested. Also, ARR is based on profits and the costs of investment (Davies & Crawford, 2011).

-Project A

0	(85)
1	10
2	20
3	40
4	55

Average investment	Initial investment
$[(10+20+40+55-85)/4] / (85/2) = 23\%$	$[(10+20+40+55-85)/4] / (85) = 11.8\%$

-Project B

0	(90)
1	25
2	30
3	35
4	40

Average investment	Initial investment
$[(25+30+35+40-90)/4] / (90/2) = 22\%$	$[(25+30+35+40-90)/4] / (90) = 11.1\%$

We are going to see that an advantage of ARR is based on the familiar accounting measure of profit, but a disadvantage is that ARR also ignores the time value of money (Davies & Crawford, 2011), and it does not make distinction between projects of the same average profit (Weetman, 2013). Thus, Marsh (2012) interprets that ARR has an important weakness that it does not analyze the timing of cash flow.

On the other hand, Atrill & McLaney (2010) manifest that this method is used when there are competing projects and normally is selected the highest, but the problem with ARR is that it ignores the time factor. In this sense, Project A has the higher return, it is the best option.

3.3 Net Present Value (NPV)

NPV is a technique that it does not have the problem of PBP about the flow cash and the problem of ARR because it does not ignore the time value of money (Weetman, 2013). NPV is equivalent to the current value of the cash inflows less the current value of the cash outflows but discounted at the cost of investment.

In this sense, if the project is positive it will be accepted, but if it is negative, the project will be rejected, when the project is zero, the project is acceptable but there will not be surplus (Weetman, 2013; Atrill & McLaney, 2010).

Similarly, Fields (2011) clarifies that if the NPV is positive, it means the actual return exceeds the objective rate. Contrarily, a disadvantage of NPV is that its use needs an estimate of the cost of capital (Davies & Crawford, 2011).

-Project A:

$$-85 + 10 / (1 + 10.5\%)^1 + 20 / (1 + 10.5\%)^2 + 40 / (1 + 10.5\%)^3 + 55 / (1 + 10.5\%)^4 = 6.96$$

Project A

0	(85)
1	10
2	20
3	40
4	55

$$PV = \frac{FV_n}{(1+i)^n} = \frac{10}{(1+10.5\%)^1} = 9.04$$

$$PV = \frac{FV_n}{(1+i)^n} = \frac{20}{(1+10.5\%)^2} = 16.37$$

$$PV = \frac{FV_n}{(1+i)^n} = \frac{40}{(1+10.5\%)^3} = 29.64$$

$$PV = \frac{FV_n}{(1+i)^n} = \frac{55}{(1+10.5\%)^4} = 36.89$$

Net Present Value (Project A) = -85 + 9.04 + 16.37 + 29.64 + 36.89 = 6.94

-Project B

0	(90)
1	25
2	30
3	35
4	40

$$PV = \frac{FV_n}{(1+i)^n} = \frac{25}{(1+10.5\%)^1} = 22.62$$

$$PV = \frac{FV_n}{(1+i)^n} = \frac{30}{(1+10.5\%)^2} = 24.56$$

$$PV = \frac{FV_n}{(1+i)^n} = \frac{35}{(1+10.5\%)^3} = 25.94$$

$$PV = \frac{FV_n}{(1+i)^n} = \frac{40}{(1+10.5\%)^4} = 26.82$$

Net Present Value (Project B) = -90 + 22.62 + 24.56 + 25.94 + 26.82 = 9.94
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Project B is the best option because this NPV is the highest, and the surplus will be better.

Finally, we can conclude that NPV is the best method to use because it takes into account the time value of money (Davies & Crawford, 2011), it is an important factor when we need to analyse different projects.

Also, NPV includes all the most important cash flow irrespective and it is the only technique in which the output of the analysis has a direct bearing on the wealth of the owners of the company (Atrill & McLaney, 2010).

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5. Appendices

Appendix 1

Balance Sheet 2016 - 2020

Consolidated Balance Sheet

	Notes	28 January 2017 €m	30 January 2016 €m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	578.6	556.4
Intangible assets	10	43.3	43.7
Investments in associates and other investments	2.1	2.1	2.1
Deferred benefit pension asset	18	62.9	46.0
Other financial assets	12	57.3	57.0
Deferred tax assets	6	—	2.7
		744.2	687.9
Current assets			
Inventories		451.1	486.5
Customer and other receivables	11	1,125.8	1,055.5
Other financial assets	12	34.0	38.9
Cash and short term deposits	13	49.7	46.3
		1,660.6	1,627.2
Total assets		2,404.8	2,315.1
Current liabilities			
Bank loans and overdrafts	14	(35.3)	(128.6)
Corporate bonds	17	—	(213.8)
Trade payables and other liabilities	15	(615.8)	(673.5)
Dividends payable	7	—	(88.3)
Other financial liabilities	16	(3.2)	(1.3)
Current tax liabilities		(75.2)	(65.1)
		(729.6)	(1,170.6)
Non-current liabilities			
Corporate bonds	17	(913.5)	(615.0)
Provisions	19	(6.7)	(7.3)
Other financial liabilities	16	(16.3)	(13.9)
Other liabilities	15	(228.9)	(211.5)
Deferred tax liabilities	8	(5.2)	—
		(1,169.7)	(847.7)
Total liabilities		(1,894.3)	(2,018.3)
NET ASSETS		510.5	311.8
TOTAL EQUITY		510.5	311.8

The financial statements were approved by the Board of directors and authorized for issue on 23 March 2017. They were signed on its behalf by:

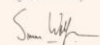
 

Figure 1. Balance Sheet 2016 and 2017

Consolidated Balance Sheet

	Notes	27 January 2018 €m	28 January 2017 €m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	558.9	578.6
Intangible assets	10	42.9	43.3
Associates, joint venture and other investment	2.1	2.1	2.1
Deferred benefit pension asset	18	106.2	62.9
Other financial assets	12	48.1	57.3
Deferred tax assets	6	9.8	—
		764.0	744.2
Current assets			
Inventories		490.1	451.1
Customer and other receivables	11	1,248.2	1,125.8
Other financial assets	12	5.7	34.0
Cash and short term deposits	13	53.5	49.7
		1,797.5	1,660.6
Total assets		2,561.5	2,404.8
Current liabilities			
Bank loans and overdrafts	14	(180.0)	(25.3)
Trade payables and other liabilities	15	(580.2)	(615.8)
Other financial liabilities	16	(9.3)	(3.2)
Current tax liabilities		(95.3)	(75.2)
		(914.8)	(729.6)
Non-current liabilities			
Corporate bonds	17	(908.5)	(913.5)
Provisions	19	(10.4)	(6.7)
Other financial liabilities	16	(12.4)	(16.3)
Other liabilities	15	(232.8)	(228.9)
Deferred tax liabilities	8	—	(5.2)
		(1,164.1)	(1,169.7)
Total liabilities		(2,078.9)	(1,894.3)
NET ASSETS		482.6	510.5
TOTAL EQUITY		482.6	510.5

The financial statements were approved by the Board of directors and authorized for issue on 23 March 2018. They were signed on its behalf by:

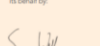
 

Figure 2. Balance Sheet 2017 and 2018

CONSOLIDATED BALANCE SHEET

	Notes	25 January 2020 €m	26 January 2019 Restated €m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	578.5	564.9
Intangible assets	10	44.2	42.6
Right of use asset	11	852.7	943.8
Associates, joint venture and other investment	12	5.0	5.1
Deferred benefit pension asset	20	133.4	125.0
Other financial assets	14	46.4	41.5
Deferred tax assets	6	55.7	41.9
		1,713.9	1,764.8
Current assets			
Inventories		527.6	502.8
Customer and other receivables	13	1,313.3	1,285.4
Right of return asset		34.2	21.4
Other financial assets	14	1.7	9.9
Cash and short term deposits	15	86.6	156.3
		1,963.4	1,975.8
Total assets		3,677.3	3,740.6
Current liabilities			
Bank loans and overdrafts	16	(73.7)	(277.3)
Trade payables and other liabilities	17	(593.6)	(596.3)
Lease liabilities	11	(172.3)	(175.6)
Other financial liabilities	18	(32.6)	(9.4)
Current tax liabilities		(79.2)	(85.3)
		(949.8)	(1,243.7)
Non-current liabilities			
Corporate bonds	19	(1,163.7)	(905.2)
Provisions	21	(17.3)	(15.7)
Other financial liabilities	18	(7.4)	(5.2)
Lease liabilities	11	(1,078.7)	(1,190.7)
Other liabilities	17	(14.5)	(9.3)
Deferred tax liabilities	6	—	(2.8)
		(2,283.6)	(2,132.7)
Total liabilities		(3,233.4)	(3,376.4)
NET ASSETS		443.9	364.2
TOTAL EQUITY		443.9	364.2

The financial statements were approved by the Board of directors and authorized for issue on 19 March 2020. They were signed on its behalf by:

Figure 3. Balance Sheet 2019 and 2020

Appendix 2

Income Statement 2016 - 2020

Consolidated Income Statement			
	Notes	52 weeks to 28 January 2017 £m	52 weeks to 30 January 2016 £m
Continuing operations			
Revenue	1, 2	4,097.3	4,176.9
Cost of sales		(2,710.7)	(2,724.2)
Gross profit		1,386.6	1,452.7
Distribution costs		(345.1)	(351.4)
Administrative expenses		(214.9)	(229.3)
(Unrealised foreign exchange gains)/losses	3	0.1	(5.4)
Trading profit		826.7	866.2
Share of results of associate		1.0	1.0
Operating profit	3	827.7	867.2
Finance income	5	0.3	0.4
Finance costs	5	(37.8)	(31.4)
Profit before taxation		790.2	836.1
Taxation	6	(154.9)	(149.3)
Profit for the year attributable to equity holders of the parent company		635.3	686.8
Earnings Per Share			
52 weeks to 52 weeks			
Basic	8	441.3p	450.5p
Diluted	8	438.1p	443.0p

The Notes 1 to 30 are an integral part of these consolidated financial statements.

Figure 4. Income Statement 2016 and 2017

Consolidated Income Statement			
	Notes	52 weeks to 27 January 2017 £m	52 weeks to 28 January 2017 £m
Continuing operations			
Revenue	1, 2	4,055.5	4,097.3
Cost of sales		(2,499.3)	(2,710.7)
Gross profit		1,556.2	1,386.6
Distribution costs		(343.9)	(345.1)
Administrative expenses		(232.3)	(214.9)
Other (losses)/gains	3	(1.1)	0.1
Trading profit		758.9	826.7
Share of results of associate and joint venture		1.0	1.0
Operating profit	3	759.9	827.7
Finance income	5	1.3	0.3
Finance costs	5	(35.1)	(37.8)
Profit before taxation		726.1	790.2
Taxation	6	(134.3)	(154.9)
Profit for the year attributable to equity holders of the Parent Company		591.8	635.3
Earnings Per Share			
Basic	8	416.7p	441.3p
Diluted	8	413.7p	438.1p

The Notes 1 to 30 are an integral part of these consolidated financial statements.

Figure 5. Income Statement 2017 and 2018

CONSOLIDATED INCOME STATEMENT			
	Notes	52 weeks to 26 January 2020 £m	52 weeks to 26 January 2019 Restated £m
Continuing operations			
Revenue		3,997.3	3,917.1
Credit account interest		268.7	250.3
Total revenue (including credit account interest)	1, 2	4,266.0	4,167.4
Cost of sales		(2,584.2)	(2,542.2)
Investment losses on customer and other receivables	12	(41.3)	(32.2)
Gross profit		1,640.5	1,593.0
Distribution costs		(317.4)	(357.5)
Administrative expenses		(237.7)	(231.4)
Other (losses)/gains	3	(3.5)	1.4
Trading profit		1,081.9	955.5
Share of results of associates and joint venture		(0.4)	0.1
Operating profit	3	1,081.5	955.6
Finance income	5	0.4	0.4
Finance costs	5	(105.4)	(107.0)
Profit before taxation		976.5	849.0
Taxation	6	(130.3)	(114.5)
Profit for the year attributable to equity holders of the Parent Company		846.2	734.5
Earnings Per Share			
Basic	8	472.4p	441.7p
Diluted	8	468.4p	435.3p

The Consolidated Income Statement and Earnings Per Share for the 52 weeks to 26 January 2020 have been restated to reflect the impact of IFRS 16 "Leases" (refer to Notes 1 and 32).

The Notes 1 to 32 are an integral part of these consolidated financial statements.

Figure 6. Income Statement 2019 and 2020

Appendix 3

Balance Sheet and Income Statement of M&S 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
	Notes	2020 28 March 2020 £m	2019 28 March 2019 £m	2018 28 March 2018 £m
Assets				
Non-current assets				
Intangible assets	14	309.1	499.3	599.2
Property, plant and equipment	15	5,474.2	5,462.3	6,397.6
Investment property		15.5	15.5	15.5
Investment in joint ventures and associates	16	765.4	4.0	1.0
Other financial assets	16	9.7	9.9	9.9
Retirement benefit assets	17	1,916.0	931.5	970.7
Trade and other receivables	17	302.6	273.0	209.5
Derivative financial instruments	20	15.4	39.9	27.1
		8,948.9	7,435.9	8,020.5
Current assets				
Inventories	1	564.3	702.4	781.0
Other financial assets	16	5.7	16.8	15.7
Trade and other receivables	17	296.0	267.2	252.4
Derivative financial instruments	20	73.5	45.3	31
Current tax assets		19.3	-	-
Cash and cash equivalents	18	348.4	281.4	202.7
		1,319.0	1,431.1	1,361.9
Total assets		10,267.9	8,867.0	9,382.4
Liabilities				
Current liabilities				
Trade and other payables	19	1,426.4	1,424.4	1,377.1
Partnership liability for the Marks & Spencer UK Pension Scheme	21	71.9	71.9	71.9
Borrowings and other financial liabilities	22	398.6	594.4	283.7
Derivative financial instruments	23	15.0	7.3	71.4
Provisions	23	21.5	100.7	14.2
Current tax liabilities		-	26.4	90.0
		1,841.4	2,224.9	1,897.9
Non-current liabilities				
Retirement benefit liabilities	17	12.4	17.2	22.5
Trade and other payables	19	222.6	16.6	86.3
Partnership liability for the Marks & Spencer UK Pension Scheme	21	125.5	700.1	263.4
Borrowings and other financial liabilities	22	3,860.9	3,428.9	4,054.5
Derivative financial instruments	23	5.7	2.4	30.7
Provisions	23	16.5	72.7	91.8
Deferred tax liabilities	24	315.4	196.1	165.1
		4,630.0	4,352.2	4,643.5
Total liabilities		6,471.4	6,577.1	6,541.4
Net assets		3,796.5	2,289.9	2,841.0
Equity				
Issued share capital	24	487.6	456.1	456.2
Share premium account	24	953.4	415.1	464.4
Capital redemption reserve		2,290.5	2,290.5	2,290.5
Hedging income		64.5	(14.0)	(176.9)
Cost of hedging reserve		5.7	11.7	10.7
Other reserves		(6,543.2)	(6,542.9)	(6,544.3)
Foreign exchange reserve		(25.9)	(41.8)	(24.3)
Retained earnings		5,919.9	6,024.4	5,094.4
Equity attributable to owners of the parent		3,702.5	2,469.1	2,779.7
Minority interests		94.0	120.8	61.3
Total equity		3,796.5	2,589.9	2,841.0

Comparative information has been restated for the impact of IFRS 16 (see note 28).
The financial statements were approved by the Board and authorised for issue on 20 May 2020. The financial statements also comprise notes 1 to 31.

Steve Rowe, Chief Executive Officer

Figure 7. Balance Sheet 2020 (M&S)

CONSOLIDATED INCOME STATEMENT							
Notes	12 weeks ended 28 March 2020				12 weeks ended 28 March 2019 (Revised)		
	Revenue	Cost of sales	Operating profit	Profit before tax	Revenue	Cost of sales	Profit before tax
	£m	£m	£m	£m	£m	£m	£m
Revenue	2.3	10,181.9	-	10,181.9	10,377.3	-	10,377.3
Share of result in associate - Ocado Retail Limited	3.5	2.6	(16.8)	(14.2)	-	-	-
Operating profit	2.3.5	590.7	(135.9)	254.8	725.6	(427.5)	298.1
Finance income	5.6	44.0	2.9	46.9	34.8	-	34.8
Finance costs	5.6	(231.6)	(2.9)	(234.5)	(248.7)	-	(248.7)
Profit before tax	4.5	403.1	(135.9)	67.2	511.7	(427.5)	84.2
Income tax expense	7	(83.4)	43.6	(39.8)	(106.0)	67.1	(38.9)
Profit for the year		319.7	(292.3)	27.4	405.7	(360.4)	45.3
Attributable to:							
Owners of the parent		316.0	(292.3)	23.7	402.1	(360.4)	41.7
Non-controlling interests		3.7	-	3.7	3.6	-	3.6
		319.7	(292.3)	27.4	405.7	(360.4)	45.3
Basic earnings per share	8	16.7p		1.3p	23.7p		2.5p
Diluted earnings per share	8	16.7p		1.3p	23.6p		2.4p

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Notes	12 weeks ended 28 March 2020 £m	12 weeks ended 28 March 2019 (Revised) £m	12 weeks ended 28 March 2018 (Revised) £m	12 weeks ended 28 March 2017 (Revised) £m
Profit for the year		27.4	45.3	45.3
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of retirement benefit schemes	11	922.9	(79.9)	(79.9)
Tax (charge)/credit on retirement benefit schemes		(196.7)	14.0	14.0
Items that may be reclassified subsequently to profit or loss		731.2	(65.9)	(65.9)
Foreign currency translation differences				
- movements recognised in other comprehensive income		5.3	(14.6)	(14.6)
- reclassified and reported in profit or loss		2.8	-	-
Cash flow hedges				
- fair value movements recognised in other comprehensive income	21	140.3	132.0	132.0
- reclassified and reported in profit or loss		(18.4)	(18.0)	(18.0)
Tax charge on cash flow hedges		(27.0)	(19.0)	(19.0)
		102.9	82.4	82.4
Profit for the year and other comprehensive income		801.6	601.8	601.8

Profit for the year and other comprehensive income: Basic Earnings per share of 1.3p

Figure 8. Income Statement 2020 (M&S)

Appendix 4

Ratios calculation

Gross Margin= Gross profit / Sales
2016: 1452.70 / 4176.90 = 0.35 X 100 = 35%
2017: 1386.60 / 4097.30 = 0.34 X 100 = 34%
2018: 1397.80 / 4091 = 0.34 X 100 = 34%
2019: 1552.50 / 4167 = 0.37 X 100 = 37 %
2020: 1640.50 / 4266 = 0.38 X 100 = 37%

Figure 9. Gross Margin

Operating Margin: Operating Income / Sales
2016: 866.20 / 4176.90 = 0.21 X 100 = 21%
2017: 826.70 / 4097.30 = 0.20 X 100 = 20 %
2018: 758.90 / 4091 = 0.19 X 100 = 19%
2019: 841.00 / 4167 = 0.20 X 100 = 20%
2020: 854.30 / 4266 = 0.20 X 100 = 20%

Figure 10. Operating Margin

Net profit Margin: Net Income / Sales
2016: $666.80 / 4176.90 = 0.16 \times 100 = 16\%$
2017: $635.30 / 4097.30 = 0.15 \times 100 = 15\%$
2018: $591.80 / 4091 = 0.14 \times 100 = 14\%$
2019: $599.10 / 4167 = 0.14 \times 100 = 14\%$
2020: $610.20 / 4266 = 0.14 \times 100 = 14\%$

Figure 11. Net profit Margin

Asset Turnover = Sales / Total Assets
2016: $4176.90 / 2330.10 = 1.79$
2017: $4097.30 / 2404.80 = 1.70$
2018: $4091 / 2561.50 = 1.59$
2019: $4167 / 3742.60 = 1.11$
2020: $4266 / 3673.30 = 1.16$

Figure 12. Asset Turnover

Current ratio: Current Assents / Current Liabilities
2016: $1642.20 / 1170.60 = 1.4$ times
2017: $1660.60 / 725.00 = 2.3$ times
2018: $1797.50 / 914.80 = 2$ times
2019: $1977.80 / 1243.70 = 1.6$ times
2020: $1955.40 / 949.80 = 2.1$ times

Figure 13. Current ratio

Quick ratio: Current Assets – Inventory / Current Liabilities
2016: $1642.00 - 486.50 / 1170.60 = 0.987$
2017: $1660.60 - 451.10 / 725 = 1.668$
2018: $1797.50 - 466.70 / 914.80 = 1.454$
2019: $1977.80 - 502.80 / 1243.70 = 1.185$
2020: $1955.40 - 527.60 / 949.80 = 1.50$

Figure 14. Quick ratio

Cash ratio: Cash / Current Liabilities
2016: $66.30 / 1170.60 = 0.06$
2017: $49.70 / 725 = 0.06$
2018: $53.50 / 914.80 = 0.06$
2019: $156.30 / 1243.70 = 0.1$
2020: $86.60 / 949.80 = 0.09$

Figure 15. Cash ratio

Debt-Equity ratio: Total debt / Total equity
2016: $2018.30 / 311.80 = 6.5$
2017: $1894.30 / 510.50 = 3.7$
2018: $2078.90 / 482.60 = 4.3$
2019: $3376.40 / 366.20 = 9.2$
2020: $3231.80 / 441.50 = 7.3$

Figure 16. Deb-Equity ratio

Debt – to – Capital Ratio: Total debt / Total Equity + Total debt

2016: $2018.30 / 311.80 + 2018.30 = 0.87 \times 100 = 87\%$

2017: $1894.30 / 510.50 + 1894.30 = 0.79 \times 100 = 79\%$

2018: $2078.90 / 482.60 + 2078.90 = 0.81 \times 100 = 81\%$

2019: $3376.40 / 366.20 + 3376.40 = 0.90 \times 100 = 90 \%$

2020: $3231.80 / 441.50 + 3231.80 = 0.88 \times 100 = 88 \%$

Figure 17. Deb – to – Capital Ratio