

Financial Management and Planning

Business review

Business review of Aston Martin Lagonda utilizing their Published Financial Statement/Report

MSc International Innovation Management (IIM)

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1. Introduction

Aston Martin is one of the world's most iconic and renowned automakers. Founded in 1913 by Lionel Martin and Robert Bamford, the brand is renowned for its handcrafted luxury sports cars and grand touring cars. Aston Martin is a symbol of sophistication, style, and performance, and has been featured prominently in the James Bond films. With a rich heritage of craftsmanship, Aston Martin has become synonymous with luxury and performance. From the classic DB5 to the modern-day Vanquish, Aston Martin has a unique range of cars that offer something for everyone. Whether you're looking for an everyday ride or something special for a special occasion, Aston Martin has something for everyone.

Lagonda was founded in 1899 and Aston Martin in 1913. The two brands came together in 1947 when both were purchased by the late Sir David Brown, and the Company is now listed on the London Stock Exchange as Aston Martin Lagonda Global Holdings plc.

“In 1913, Lionel Martin and Robert Bamford teamed up with an idea. To race cars and use what they learnt to make exquisite British sports cars.

Aston Martin is associated with both luxury and speed, a combination few can achieve. While the term 'luxury' is often thrown around, Aston Martin is a special breed that prides itself on defining luxury, and they never produce above the units that would lower their status.

Renowned for its product longevity, exclusivity and hand-built craftsmanship, Aston Martin has manufactured fewer than 109,000 cars in its 109 year history – with 95% of these highly treasured cars estimated to be still on their journey.

Aston Martin has been independent since 2007 and In January of 2020, Canadian billionaire and investor Lawrence Stroll led a consortium to gain a 25% stake in the company. Today, Stroll is the chairman of Aston Martin, and Tobias Moers of Mercedes-AMG is the CEO of Aston Martin Lagonda Group Limited.

In 2020-21, Aston Martin is introducing a range of exciting new models and updates to their existing line-up of cars. From the powerful and luxurious Vantage to the all-electric Lagonda.

2. Summary

This is the business report representing Aston Martin Lagonda PLC's annual reports, financial ratios analysis for financial year 2021 and year 2020 and highlighting some trends, risk and recommendation.

This report summarizes the potential joint venture opportunity between our company and Aston Martin plc. We have identified a £5m project that could be a beneficial venture for both companies. Our research into the project has shown that it would offer our business a number of advantages, including access to Aston Martin's expertise and resources, a competitive edge in the marketplace, and a platform to grow our presence in the luxury car market.

We have also identified a number of risks associated with the project, including potential financial and legal implications. Nevertheless, our recommendation is to move forward with the venture as the potential benefits to our business far outweigh the risks. We believe that with proper oversight and management, this joint venture could be a profitable and successful project for both companies.

3. Uses of Financial statement

- To assess the financial performance of a business.
- To provide information used to make investment decisions.
- To provide transparency to creditors and investors.
- To assess the liquidity, solvency and financial stability of a business.
- To determine the value of a business for potential buyers.
- To assess the viability of potential investments.
- To provide information for tax and regulatory compliance.
- To make projections about future performance.
- To assess how well a company is using its resources.
- To identify areas of potential cost savings.
- To adhere to legal and regulatory requirements.

Income Statement:

The income statement is one of the most important documents used to analyse a company's financial performance. It provides key insights into the company's current and past financial performance and helps investors and analysts identify trends in the company's operations. It also helps the company identify areas for improvement and can be used to make decisions on how to best allocate resources. The income statement can also be used to compare a company's financial performance against its competitors.

Balance sheet:

The balance sheet can be used to assess a company's financial health in several ways. First, it can be used to identify the company's financial strengths and weaknesses. For example, if the company has a large amount of cash, that could be a sign of financial strength. Conversely, if the company has a large amount of debt, that could be a sign of financial weakness.

Second, the balance sheet can be used to evaluate a company's liquidity. Liquidity refers to the company's ability to pay its short-term obligations, such as payroll and accounts payable. To assess a company's liquidity, one can compare the current assets (assets that can be converted to cash quickly) to the current liabilities (obligations due within one year). A high ratio of current assets to current liabilities could indicate that the company is in good financial health.

Cash flow Statement:

It is used to track the cash that is coming in and going out of a business and helps to identify trends in a company's financial performance.

Cash flow statements are used to evaluate a company's overall financial health. They provide a summary of how much cash a company has coming in, how much is being spent, and how much is left after all expenses have been paid. This helps to determine whether a company is able to meet its financial obligations and whether it has enough cash to cover its expenses.

Cash flow statements are important for businesses that are looking to borrow money. Lenders use cash flow statements to determine a company's creditworthiness and ability to repay a loan.

4. Financial statements review: Trends & Risks

There is a couple of trends within Aston Martin's financial statements. The first trend within Aston Martin's financial statements is the decreasing revenue. In 2020, the company reported a revenue decline of 8.9%. This was largely due to the effects of the pandemic, which reduced demand for luxury cars. As a result, Aston Martin's sales have been adversely impacted. Going forward, the company must find ways to increase its revenue in order to remain competitive.

The second trend is the increasing cost of goods sold (COGS). COGS for Aston Martin have been steadily increasing due to rising raw material prices and other costs associated with producing luxury cars. This has put a strain on the company's bottom line and could continue to do so in 2021. To counteract this trend, Aston Martin must focus on cost-cutting initiatives and find ways to reduce its COGS.

In addition to these two trends, there are a number of risks associated with Aston Martin's financial statements in 2021. One of the biggest risks is the potential for decreased demand due to the pandemic. With fewer people buying luxury cars, Aston Martin could be negatively impacted in 2021. The company is also facing increased competition from other luxury car makers such as Mercedes-Benz and BMW. This could further reduce demand for Aston Martin's cars.

To address these trends and risks, Aston Martin has implemented a number of strategies. The company has focused on cost-cutting initiatives, such as reducing its overhead costs and streamlining its production processes. It has also invested in digital marketing to reach new customers and increase its brand visibility. Finally, the company is exploring partnerships with other luxury car makers in order to increase its market share.

5. Calculations of Financial Ratios

Financial ratios are a powerful tool which used to measure various aspects of a company's financial performance. They are used to compare a company's financial performance to other companies or to industry averages. Financial ratios are used to measure profitability, liquidity, solvency, and efficiency of a business.

To calculate these ratios, we need to use the relationship between two or more components of financial statements. They are used most effectively when results over several periods are compared.

Here below we have calculated 5 important financial ratios for Aston Martin Lagonda Company on their financial statement for year 2020 and 2021.

Profitability Ratios		Year 2021			Year 2020		
Gross Profit Margin	Gross Profit X 100	343.7	100	31.38	111.1	100	18.16
	Sales	1095.3			611.8		
Operating Profit Margin	Operating Profit X 100	-76.5	100	-6.98	322.9	100	52.78
	Sales	1095.3			611.8		
Net Profit Margin	Net Income X 100	-189.3	100	-17.28	-410.5	100	-67.1
	Sales	1095.3			611.8		
Return on Assets	Net Income X 100	-189.3	100	-6.66	-410.5	100	-14.69
	Assets	2842.5			2794.8		
Return on Equity	Net Income X 100	-189.3	100	-28.66	-410.5	100	-51.05
	Shareholder's equity	660.4			804.1		
Liquidity Ratios		Year 2021			Year 2020		
Current Ratio	Current Assets	867.9		0.96	889.5		1.1
	Current Liabilities	905.2			808.3		
Quick or Acid test Ratio	Current Assets less Stock	867.9	196.8	0.74	889.5	207.4	0.84
	Current Liabilities	905.2			808.3		
Cash Ratio	Cash & Cash Equivalents	418.9		0.46	489.4		0.61
	Current Liabilities	905.2			808.3		

Activity Ratios		Year 2021			Year 2020		
Days Sales O/S (DSO)	Trade and other receivables	245.5	2.1	82.51	178.8	0.9	107.21
	Avg Revenue/Day (365)	3			1.68		
Inventory Turnover	Cost of goods sold	751.6		3.82	500.7		2.41
	Average inventory or Stock	196.8			207.4		
Days Payable O/S (DPO)	Trade and other Payable	730.8		354.9	586.4		427.47
	Average COGS per Day	2.06			1.37		
Leverage Ratios		Year 2021			Year 2020		
Gearing Ratio	Non Current Liabilities X 100%	1276.9	100	65.91	1182.4	100	59.52
	Equity + Non Current Liabilities	660.4	1276.9		804.1	1182.4	
Debt/Equity Ratio	Total Liabilities X 100%	2182.1	100	330.42	1990.7	100	247.57
	Stockholder's Equity	660.4			804.1		
Long term Debt /Equity Ratio	Long term Debt X 100%	1189.2	100	180.07	1084.8	100	1.22
	Shareholder's Equity	660.4			804.1		
Interest Coverage	Operating Profit X 100%	76.5	100	64.83	322.9	100	392.35
	Interest Charge	118			82.3		

Investor Ratios		Year 2021			Year 2020		
Earnings per ordinary share	Net Income (Profit after tax)	-189.3		-1.64	-410.5		-5.32
	No. of shares	115.5			77.2		
Price per earnings Ratio	Market Value per share	774.68		-466.7	501.52		-92.36
	Earning per share	-1.66			-5.43		
Dividend Yield Ratio	Dividend per share X 100%	No Dividend offered			No Dividend offered		
	Market Value per Share						
Dividend Cover	Net Income (PAT) X 100%	No Dividend offered			No Dividend offered		

6. Evaluation of Financial Ratios

Financial ratios are important because they can be used to compare a company's financial performance to other companies or to industry averages. By doing so, investors and analysts can determine whether a company is performing better or worse than its peers. Furthermore, financial ratios can be used to identify problems or areas for improvement within a company's operations.

Purpose of Financial Ratio Analysis

Financial Ratio analysis is a popular technique of financial analysis. It is used to visualize and extract information from financial statements. It focuses on ratios that reflect profitability, efficiency, financing leverage, and other vital information about a business. The ratios can be used for both horizontal analysis and vertical analysis.

Limitations of Financial Ratio Analysis (FRA):

- FRA information is historic – it is not current or present data.
- FRA does not take into account external factors such as a worldwide recession
- FRA does not measure the human element of a firm
- FRA can only be used for comparison with other firms of the same size and type
- Financial ratios may be difficult to compare with other businesses as they may not be willing to share the information

Below we have calculated financial ratios for Aston Martin Lagonda Company by using their annual reports for Year 2020 and Year 2021.

6.1 Profitability Ratios

Profitability ratios are a type of accounting ratio that helps in determining the financial performance of business at the end of an accounting period. Profitability ratios show how well a company is able to make profits from its operations.

a) Gross Profit, Operating Loss & Net Loss-

These ratios measure the company's ability to generate profits.

As per our above calculation, we got 31% and 18% gross profit for the financial years 2021 and 2020 respectively, which is good and positive sign for the company. In Other hand, we got 7% and 53% operating loss in last 2 years and also Net loss of 17% and 67% in those same years.

From above, we can see that company was not in Operating and Net profit for the financial years 2021 and 2020, they got the Operating as well as Net loss, it shows that their direct and indirect costs were higher than the revenue.

Operating loss was showing that there were more operating expenses than sales revenue.

Net loss was showing that they spend more than they earn from sales.

b) Return on asset & Return on Equity-

The Return on asset ratio shows of net earnings in relation to assets of company. From above calculation, company showed - 7% and -15% for the financial years 2021 and 2020 respectively. The company reported negative return on asset for both the years. That means company had more liabilities than asset.

Return on Equity indicates the proportion of net earning in relation to owner's equity. From above calculation, company showed - 29% and -51% for the financial years 2021 and 2020 respectively. The company reported negative return on Equity for both the years. This shows that the ratio is unfavourable which makes a firm's stock prices unattractive to investors. The results also indicate that the firms cash is inadequate hence it relies on debt financing to support its activities.

6.2: Liquidity Ratios

These ratios measure the company's ability to pay off its short-term liabilities. Examples of liquidity ratios include current ratio and quick ratio.

Aston Martin Lagonda's Current ratios were 0.96 and 1.1 for the financial years 2021 and 2020 resp. The ratio for year 2020 indicates the company's ability to pay its short-term obligations. A higher ratio is preferred as it indicates that the company has sufficient current assets to cover its current liabilities. However, for year 2021, the ratio was less than one. That means company's most liquid assets were insufficient to pay its current obligations in this years.

Aston Martin Lagonda's Quick ratios were 0.74 and 0.84 for the financial years 2021 and 2020 resp. The quick ratio measures the company's ability to meet its short-term obligations with its most liquid assets (cash and cash equivalents, marketable securities, and accounts receivable). As the both ratios were less than one, that means company's most liquid assets were insufficient to pay its current obligations in both the years.

6.3: Efficiency or Activity Ratios

Efficiency ratios, also known as activity ratios, are used by analysts to measure the performance of a company's short-term or current performance. All these ratios use numbers in a company's current assets or current liabilities, quantifying the operations of the business.

a) Days Sales outstanding ratio & Days payable outstanding ratio & Inventory turnover ratio-

Inventory Turnover Ratio: This ratio measures the number of times the inventory is sold and replaced during the year. In 2021, the inventory turnover ratio of Aston Martin Lagonda was 3.82 times while in 2020 it was 2.41 times.

Days Sales Outstanding (DSO): Days Sales Outstanding (DSO) is a measure of how long it takes a company to collect payment from its customers after it has sold a product or service.

The Days Sales Outstanding (DSO) of Aston Martin Lagonda were 82 days in 2021 and 107 days in 2020. This indicates that the company was able to improve its collection process and reduce the time it takes to collect payments from customers. DSO decrease from 2020 to 2021 that means the company was able to improve its collection process and reduce the time it takes to collect payments from customers.

Days Payable Outstanding (DPO): Days Payable Outstanding (DPO) is a measure of how long it takes a company to pay its suppliers after it has received a product or service.

The Days Payable Outstanding (DPO) of Aston Martin Lagonda were 354 days in 2021 and 427 days in 2020. This suggests that the company was able to take advantage of its supplier's credit terms and delay payments for longer periods of time.

6.4: Leverage Ratios

Leverage ratios are used to measure the degree to which a company relies on borrowing or debt to finance its activities. They are important indicators of financial health, as they measure a company's ability to service and repay its debt obligations. The analysis of Aston Martin Lagonda's leverage ratios for the financial years 2021 and 2020 provides insight into the company's financial health during these periods.

a. Gearing Ratio-

Gearing ratio measures the degree of financial leverage used by a company. This ratio shows the proportion of a company's capital that is financed through debt, as opposed to equity.

Gearing ratio of Aston Martin Lagonda were 66% for 2021 and 60% for 2020.

These gearing ratios are more than 50%, so it puts company in higher financial risk. That means company's capital was financed through debt and loans for both the years. That was one of the risk and vulnerable condition of company.

b. Debt to Equity Ratio-

Debt to equity ratio is a measure of the relative proportions of debt and equity that a company uses to finance its operations and growth. A higher ratio indicates that the company is more heavily reliant on debt financing and a lower ratio indicates that the company is more reliant on equity financing.

Debt to Equity Ratio of Aston Martin Lagonda were 330% for 2021 and 248% for 2020. It shows company is more heavily reliant on debt financing and also production costs & indirect costs were very high for the company.

6.5: Investor Ratios

Investor ratios measure how well a company is performing as an investment. These ratios compare a company's market performance and financial data to determine how efficient and profitable the company is

As we know from Aston Martin Lagonda's financial report that no dividend was declared by Aston Martin Works Limited for both the years. In addition, Earnings per ordinary share and Price per earnings Ratio are calculated in negative value. That means, company got loss per ordinary share. From investor and shareholder's point of view, this company experienced losses in financial years 2021 and 2020.

7. Conclusion with some recommendations

We have gone through Aston Martin Lagonda Plc's annual reports for Financial Year 2020 and Financial Year 2021, and by using this data we have calculated main five financial ratios. From this ratios and their analysis we have got clarity about company's performance, financial status, operating performance, liquidity leverage, cash flow strength, debt, and share market position.

The 2021 and 2020 financial analysis of Aston Martin shows a mixed financial performance. Revenue for Aston Martin has increased significantly year-over-year. Despite the impressive growth in revenue, Aston Martin's operating income has seen a considerable decline. This is largely due to higher expenses related to promotions and research and development, as well as increased costs related to the launch of new models. The company will need to focus on reducing costs and increasing efficiency in order to improve its financial performance in the future.

Net income has also seen a sharp decline. This was primarily due to higher-than-expected investments in research and development and other non-recurring items, and also this decrease is mainly due to the higher operating expenses and increased costs related to new models.

Recommendation-

Organisation should drop some project which are not profitable or which has low in demand.

Organisation should focus on their assets and debt. They should dispose the assets which no longer have economic use to assist in generating cash for repaying back the borrowed. The organization should also negotiate its debt repayment terms and interest rates to help check on excessive debt servicing and principal amount repayment hence restoring its profitability.

Increased profits can also be achieved by investing more on marketing and other promotional activities to increase awareness about its products and services in the market. This activity attracts potential customers and actualizes the purchasing needs. The organization should consider issuing additional ordinary shares to help raise cash for servicing debt.

Based on these findings, it is recommended that the company should continue to focus on increasing its revenue and profits, while maintaining its current financial ratios. Further, the company should continue to maintain its dividend pay-out ratio to ensure that its shareholders continue to reap the benefits of the company's success.

Overall, Aston Martin is facing a number of financial challenges in 2021 and 2020. However, the company is taking steps to address these trends and risks, and has the potential to remain competitive in the luxury car

market. With the right strategies in place, Aston Martin can ensure its long-term success and remain an iconic car maker.

In conclusion, after conducting our analysis, we believe that a joint venture with Aston Martin plc would be beneficial to our company. The joint venture would enable us to tap into their extensive knowledge and skills in the automotive industry, while also allowing us to access their resources in order to complete the £5m project. With their strong presence in the automotive industry, a joint venture with Aston Martin plc would be a major opportunity for our company to expand our business and increase our profits. We recommend that our senior management team move forward with conducting further negotiations with Aston Martin plc in order to finalize the joint venture.

8. Appendices

Below data is taken from Aston Martin Lagonda's Annual Report and Accounts 202. This data is for Financial Year 2020 and Year 2021. We can find this data in the report, on page number 132, 154-158, 174-197.

ASTON MARTIN LAGONDA ANNUAL REPORT		
Item	2021 (£m)	2020 (£m)
Revenue	1095.3	611.8
Cost of sales	751.6	500.7
Gross profit	343.7	111.1
Operating loss	76.5	322.9
Total (Loss)/profit	189.3	410.5
Non-current assets	1,974.60	1905.3
Cash and cash equivalents	418.9	489.4
Current assets	867.9	889.5
Total assets	2842.5	2794.8
Current liabilities	905.2	808.3
Non-current liabilities	1276.9	1182.4
Total liabilities	2182.1	1990.7
Net assets	660.4	804.0
Total shareholders' equity	660.4	804.1
Total Stock	196.8	207.4

ASTON MARTIN LAGONDA ANNUAL REPORT		
Item	2021 (£m)	2020 (£m)
Revenue	1095.3	611.8
Avg. Revenue/Day	3.00	1.68
Cost of sales	751.6	500.7
Avg. COGS/Day	2.06	1.37
Gross profit	343.7	111.1
Operating loss	76.5	322.9
Total (Loss)	189.3	410.5
Basic loss per share (in £)	1.66	5.43
Diluted loss per share (in £)	1.66£	5.43£

Trade and other receivables	2.1	0.9
Non-current assets	1,974.60	1905.3
Trade and other receivables	243.4	177.9
Cash and cash equivalents	418.9	489.4
Current assets	867.9	889.5
Trade and other receivables (Current + Non current)	245.5	178.8
Total assets	2842.5	2794.8
Borrowings	114.3	113.5
Trade and other payables	721.0	578.9
Current liabilities	905.2	808.3
Borrowings (long term debt)	1074.9	971.3
Borrowings (net)	1189.2	1084.8
Trade and other payables	9.8	7.5
Trade and other payables (Current + Non current)	730.8	586.4
Non-current liabilities	1276.9	1182.4
Total liabilities	2182.1	1990.7
Net assets	660.4	804.0
Total shareholders' equity	660.4	804.1
Interest received	1.1	2.3
Interest paid	118.0	82.3
Total Stock	196.8	207.4
No. of Shares	115.5	77.2
Share value on 31st Dec	774.68	501.52

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