

University Of Wales Trinity Saint David

Course: Business and Management

Module: Financial Management for Business Sustainability

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Assignment title: Financial Analysis of Domino's Pizza Group plc: A Ratio-Based Performance Evaluation (2019-2020)

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Introduction

This report analyses the financial performance and position of Domino's Pizza Group plc by examining its financial statements for the years ending 29 December 2019 and 27 December 2020. Financial ratio analysis is used to evaluate the company's profitability, liquidity, and financial stability during this period. Ratios such as gross profit margin, net profit margin, current ratio, quick ratio, debt ratio and return on assets are calculated using figures from the company's published annual reports. These ratios help to show trends in performance and provide insight into how effectively the company is managing its costs, assets, and liabilities. By comparing the results between the two years, the report aims to assess whether the financial position of Domino's improved or declined and what this may indicate about the overall performance of the business.

Financial Statements Used

The financial information used in this report has been taken from the published annual reports of Domino's Pizza Group plc for the financial years ending 29 December 2019 and 27 December 2020. The key financial statements used for the analysis are the Group Income Statement and the Group Balance Sheet. These statements provide important information about the company's revenue, profit, assets, and liabilities. The figures taken from these statements have been used to calculate a range of financial ratios including profitability, liquidity, and solvency ratios. Analysing these financial statements allows a comparison to be made between the two years to assess changes in the company's financial performance and financial position.

Financial Ratio Calculations

The following financial ratios have been calculated using figures from the Domino's Pizza Group plc financial statements for 2019 and 2020.

Ratio	Formula	2019	2020
Gross Profit Margin	$\text{Gross Profit} \div \text{Revenue} \times 100$	46.2%	46.8%
Net Profit Margin	$\text{Profit for the period} \div \text{Revenue} \times 100$	0.6%	7.9%
Current Ratio	$\text{Current Assets} \div \text{Current Liabilities}$	1.15:1	1.27:1
Quick Ratio	$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$	1.05:1	1.19:1
Debt Ratio	$\text{Total Liabilities} \div \text{Total Assets} \times 100$	111.7%	101.5%
Return on Assets	$\text{Profit for the period} \div \text{Total Assets} \times 100$	0.8%	6.7%

Ratio Analysis

Profitability Analysis

Profitability ratios measure how effectively a company generates profit from its revenue. The gross profit margin increased slightly from 46.2% in 2019 to 46.8% in 2020. This suggests that Domino's maintained good control over its cost of sales despite a small decrease in revenue

during the period. A stable gross profit margin generally indicates that a company is managing its production and operating costs effectively.

The net profit margin improved significantly from 0.6% in 2019 to 7.9% in 2020, showing that Domino's overall profitability increased considerably (Domino's Pizza Group plc, 2021). Net profit margin measures how much profit a company earns after all expenses have been deducted (Atrill & McLaney, 2019). The improvement suggests that Domino's became more efficient at converting revenue into profit during 2020. However, this may reflect short-term COVID-19 demand rather than sustainable long-term improvement.

One explanation for this increase is the impact of the COVID-19 pandemic during lockdown periods (Domino's Pizza Group plc, 2021). During this time, many restaurants were forced to close or reduce operations, while takeaway and delivery services experienced higher demand. As Domino's primarily runs through delivery and takeaway services, the company may have benefited from changes in consumer behaviour during lockdown periods.

Liquidity Analysis

Liquidity ratios measure a company's ability to meet its short-term financial obligations (Atrill & McLaney, 2019), using its current assets. The current ratio increased from 1.15:1 in 2019 to 1.27:1 in 2020, indicating improved ability to cover short-term liabilities. A ratio above 1 suggests the company can meet its financial commitments, reflecting stronger short-term financial stability.

Similarly, the quick ratio increased from 1.05:1 in 2019 to 1.19:1 in 2020. As this excludes inventory, it provides a more conservative measure of liquidity. This improvement suggests Domino's strengthened its short-term financial position, although this may be temporary as trading conditions normalise.

This improvement may be linked to increased demand for food delivery during the COVID-19 pandemic, as customers relied more heavily on takeaway services. This likely improved cash flow and liquidity, highlighting how external factors positively influenced financial performance.

Solvency Analysis

Solvency ratios measure a company's ability to meet its long-term financial obligations and assess financial risk (Atrill & McLaney, 2019). The debt ratio decreased from 111.7% in 2019 to 101.5% in 2020. Although still above 100%, indicating liabilities exceed assets, the reduction suggests a slight improvement in financial stability.

A high debt ratio indicates reliance on borrowed funds. However, the decrease may suggest Domino's improved its financial position by managing liabilities more effectively or increasing its asset base, although the business stays highly leveraged and exposed to financial risk.

Return on Assets

Return on assets (ROA) measures how efficiently a company uses its assets to generate profit (Atrill & McLaney, 2019). Domino's return on assets increased significantly from 0.8% in 2019 to 6.7% in 2020, indicating a strong improvement in the company's efficiency.

This increase suggests that Domino's was able to generate higher profits from its assets during 2020, reflecting improved efficiency. However, this may be driven by external demand rather than improved asset utilisation alone, particularly due to increased takeaway and delivery demand during the COVID-19 pandemic.

Discussion of Overall Financial Performance

The overall financial performance of Domino's Pizza Group plc improved between 2019 and 2020, based on the results of the financial ratio analysis. Using profitability, liquidity and solvency ratios offers a structured way to assess how the business performed across the two years, directly addressing the requirements of the assignment.

Profitability improved significantly, particularly in relation to net profit margin and return on assets. Using profitability ratio analysis, this indicates that Domino's became more efficient at converting revenue into profit and making better use of its assets. This suggests that the company strengthened its operational performance during 2020 (Domino's Pizza Group plc, 2021). A key reason for this improvement is the impact of COVID-19. During 2020, many competitors experienced declining sales due to restrictions, while Domino's delivery-focused model allowed it to benefit from increased demand. In practice, this shows how a business model aligned with external conditions can create a competitive advantage.

Liquidity also improved, with both the current and quick ratios increasing. From a theoretical perspective, liquidity ratios measure a company's ability to meet short-term obligations, meaning Domino's improved its short-term financial stability. This suggests reduced financial risk in the short term and stronger cash flow management. However, this improvement may partly reflect temporary trading conditions during COVID-19, meaning it may not be fully sustainable in the long term.

At the same time, the debt ratio, although reduced, stays above 100%, meaning liabilities still exceed assets. Using solvency ratio analysis, this highlights that Domino's continues to rely heavily on debt financing. This suggests that while short-term performance improved, there is still a level of long-term financial risk. However, the reduction in the ratio does indicate some progress in improving the company's financial structure.

Overall, the ratio analysis shows that Domino's financial performance improved during 2020, mainly due to increased demand during COVID-19 and effective cost management. However, some of this improvement may be influenced by external conditions rather than long-term structural change, which is important when evaluating future performance. Overall, some of these improvements may be temporary rather than long-term structural changes.

Recommendations

Based on the financial analysis, several recommendations can be made to improve Domino's future financial performance and sustainability, directly addressing the requirements of the assignment.

Firstly, Domino's should focus on reducing its debt ratio, as a level above 100% indicates a higher level of financial risk. From a solvency perspective, lowering reliance on debt would improve long-term financial stability. This could be achieved by using retained profits to reduce liabilities or restructuring existing debt. This suggests that strengthening the balance sheet would make the company more financially secure.

Secondly, Domino's should continue investing in its delivery and digital systems. The strong improvement in profitability during 2020 shows that its business model is highly effective (Domino's Pizza Group plc, 2021). Particularly during COVID-19. This suggests that maintaining and improving online ordering and delivery efficiency will help sustain this advantage. In practice, this could support continued growth even as market conditions change.

Another important area is cost control. Although profitability improved, maintaining a stable gross profit margin is essential for long-term success. This suggests that Domino's should continue managing supplier costs, labour and operational efficiency. However, rising costs such as wages and supply chain pressures may create challenges, meaning the company must balance cost control with maintaining service quality.

Finally, Domino's should consider diversifying its revenue streams. The strong performance during COVID-19 may not be permanent, and relying heavily on delivery demand could create risk. This suggests that expanding product offerings or entering new markets could improve long-term resilience.

Overall, these recommendations aim to strengthen Domino's financial position by reducing risk, maintaining profitability and improving long-term sustainability.

Conclusion

In conclusion, the ratio analysis shows that Domino's Pizza Group plc improved its financial performance between 2019 and 2020. Profitability increased significantly, particularly in terms of net profit margin and return on assets, suggesting that the company became more efficient at generating profit.

Liquidity also improved slightly as both the current ratio and quick ratio increased, showing that Domino's has strengthened its ability to meet short-term financial obligations. Although the debt ratio stays high, the decrease between the two years suggests some improvement in the company's financial structure.

Overall, the results suggest that Domino's performed strongly during 2020 despite the challenges created by the COVID-19 pandemic. The company's focus on delivery and takeaway services may have allowed it to adapt successfully to changing consumer behaviour. However, some of this performance may be influenced by temporary external conditions, meaning long-term sustainability will depend on maintaining efficiency and reducing financial risk.

References

Atrill, P., & McLaney, E. (2019). *Accounting and finance for non-specialists* (11th ed.). Pearson.

Domino's Pizza Group plc. (2020). *Annual report and accounts 2019*.

Domino's Pizza Group plc. (2021). *Annual report and accounts 2020*.

GROUP INCOME STATEMENT

52 WEEKS ENDED 27 DECEMBER 2020

	Notes	52 weeks ended 27 December 2020 £m			52 weeks ended 29 December 2019 £m		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
Revenue	3	505.1	–	505.1	508.3	–	508.3
Cost of sales		(268.6)	–	(268.6)	(273.5)	–	(273.5)
Gross profit		236.5	–	236.5	234.8	–	234.8
Distribution costs		(30.8)	–	(30.8)	(30.9)	–	(30.9)
Administrative costs		(107.5)	(4.6)	(112.1)	(103.5)	(9.5)	(113.0)
Other expenses		–	(4.6)	(4.6)	–	(20.8)	(20.8)
Share of post-tax profit/(loss) of associates and joint ventures	18	9.5	(0.5)	9.0	4.9	(2.8)	2.1
Other income		1.3	7.1	8.4	–	9.2	9.2
Profit/(loss) before interest and taxation	5	109.0	(2.6)	106.4	105.3	(23.9)	81.4
Finance income	9	13.7	0.7	14.4	0.8	0.8	1.6
Finance costs	10	(21.5)	(0.4)	(21.9)	(7.3)	(0.6)	(7.9)
Profit/(loss) before taxation		101.2	(2.3)	98.9	98.8	(23.7)	75.1
Taxation	11	(16.9)	0.2	(16.7)	(17.7)	1.9	(15.8)
Profit/(loss) for the period from continuing operations		84.3	(2.1)	82.2	81.1	(21.8)	59.3
Loss from discontinued operations	4	–	(42.5)	(42.5)	–	(56.5)	(56.5)
Profit/(loss) for the period		84.3	(44.6)	39.7	81.1	(78.3)	2.8
Profit/(loss) attributable to:							
– Equity holders of the parent		84.3	(43.2)	41.1	81.1	(68.0)	13.1
– Non-controlling interests		–	(1.4)	(1.4)	–	(10.3)	(10.3)
Profit/(loss) for the period		84.3	(44.6)	39.7	81.1	(78.3)	2.8
Earnings per share							
From continuing operations							
– Basic (pence)	12	18.2		17.8	17.6		12.9
– Diluted (pence)	12	18.1		17.7	17.5		12.8
From continuing and discontinued operations (statutory)							
– Basic (pence)	12			8.9			2.8
– Diluted (pence)	12			8.8			2.8

The notes on pages 151 to 216 are an integral part of these consolidated financial statements.

GROUP BALANCE SHEET

AT 27 DECEMBER 2020

	Notes	At 27 December 2020 £m	At 29 December 2019 £m
Non-current assets			
Intangible assets	14	30.5	34.5
Property, plant and equipment	15	91.1	84.8
Right-of-use assets	16	20.1	–
Lease receivables	16	191.5	–
Trade and other receivables	17	21.2	37.1
Other financial asset	26	13.3	7.1
Investments	26	12.3	10.5
Investments in associates and joint ventures	18	39.4	32.4
Deferred consideration	23	5.7	5.7
		425.1	212.1
Current assets			
Lease receivables	16	13.2	–
Inventories	19	11.0	13.0
Assets held for sale	4	38.1	55.7
Trade and other receivables	17	36.2	62.0
Other financial asset	26	2.0	–
Current tax assets		3.2	–
Cash and cash equivalents	20	63.4	11.1
		167.1	141.8
Total assets		592.2	353.9
Current liabilities			
Lease liabilities	16	(17.8)	–
Trade and other payables	21	(90.0)	(85.4)
Liabilities held for sale	4	(23.5)	(27.9)
Financial liabilities	22	–	(0.9)
Deferred and contingent consideration	23	–	(0.2)
Current tax liabilities		–	(5.8)
Provisions	24	(0.4)	(2.7)
		(131.7)	(122.9)
Non-current liabilities			
Lease liabilities	16	(208.7)	–
Trade and other payables	21	(0.3)	(10.1)
Financial liabilities	22	(243.6)	(248.3)
Deferred tax liabilities	11	(3.6)	(1.1)
Provisions	24	(13.1)	(12.8)
		(469.3)	(272.3)
Total liabilities		(601.0)	(395.2)
Net liabilities		(8.8)	(41.3)

Group income statement

52 weeks ended 29 December 2019

	Notes	52 weeks ended 29 December 2019 £m			52 weeks ended 30 December 2018 (restated)* £m		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
Revenue	3	508.3	–	508.3	493.4	–	493.4
Cost of sales		(273.5)	–	(273.5)	(266.3)	–	(266.3)
Gross profit		234.8	–	234.8	227.1	–	227.1
Distribution costs		(30.9)	–	(30.9)	(30.3)	–	(30.3)
Administrative costs		(103.5)	(9.5)	(113.0)	(97.5)	(14.2)	(111.7)
Other expenses		–	(20.8)	(20.8)	–	(4.9)	(4.9)
Share of post-tax profit/(loss) of associates and joint ventures	17	4.9	(2.8)	2.1	4.2	(3.2)	1.0
Other income	7	–	9.2	9.2	–	8.2	8.2
Profit/(loss) before interest and taxation		105.3	(23.9)	81.4	103.5	(14.1)	89.4
Finance income	9	0.8	0.8	1.6	0.9	1.2	2.1
Finance costs	10	(7.3)	(0.6)	(7.9)	(4.4)	–	(4.4)
Profit/(loss) before taxation		98.8	(23.7)	75.1	100.0	(12.9)	87.1
Taxation	11	(17.7)	1.9	(15.8)	(17.4)	2.0	(15.4)
Profit/(loss) for the period from continuing operations		81.1	(21.8)	59.3	82.6	(10.9)	71.7
Loss from discontinued operations	4	–	(56.5)	(56.5)	–	(27.8)	(27.8)
Profit/(loss) for the period		81.1	(78.3)	2.8	82.6	(38.7)	43.9
Profit/(loss) attributable to:							
– Equity holders of the parent		81.1	(68.0)	13.1	82.6	(33.6)	49.0
– Non-controlling interests		–	(10.3)	(10.3)	–	(5.1)	(5.1)
Profit/(loss) for the period		81.1	(78.3)	2.8	82.6	(38.7)	43.9
Earnings per share							
From continuing operations							
– Basic (pence)	12	17.6		12.9	17.4		15.1
– Diluted (pence)	12	17.5		12.8	17.2		15.0
From continuing and discontinued operations (statutory)							
– Basic (pence)	12			2.8			10.3
– Diluted (pence)	12			2.8			10.2

* Results for the 52 weeks ended 30 December 2018 have been restated to reflect revenues recognised in relation to the NAF and eCommerce funds and the re-presentation of international operations as discontinued as set out in note 2 and 4.

The notes on pages 107 to 173 are an integral part of these consolidated financial statements.

Group balance sheet
at 29 December 2019

	Notes	At 29 December 2019 £m	At 30 December 2018 £m
Non-current assets			
Intangible assets	14	34.5	106.7
Property, plant and equipment	15	84.8	107.6
Trade and other receivables	16	37.1	39.4
Other financial asset	26	7.1	8.9
Investments	26	10.5	11.1
Investments in associates and joint ventures	17	32.4	29.7
Deferred consideration	22	5.7	5.7
Deferred tax asset	11	–	0.6
		212.1	309.7
Current assets			
Inventories	18	13.0	8.4
Assets held for sale	4	55.7	–
Trade and other receivables	16	62.0	54.7
Deferred consideration	22	–	0.9
Cash and cash equivalents	19	11.1	24.8
		141.8	88.8
Total assets		353.9	398.5
Current liabilities			
Trade and other payables	20	(85.4)	(100.4)
Liabilities held for sale	4	(27.9)	–
Financial liabilities	21	(0.9)	(2.5)
Financial liabilities – share buyback obligation	21	–	(15.8)
Deferred and contingent consideration	22	(0.2)	–
Current tax liabilities		(5.8)	(5.9)
Provisions	24	(2.7)	(3.6)
		(122.9)	(128.2)
Non-current liabilities			
Trade and other payables	20	(10.1)	(10.7)
Financial liabilities	21	(248.3)	(237.4)
Deferred tax liabilities	11	(1.1)	(6.5)
Provisions	24	(12.8)	(13.2)
		(272.3)	(267.8)
Total liabilities		(395.2)	(396.0)
Net (liabilities)/assets		(41.3)	2.5
Shareholders' equity			
Called up share capital	27	2.4	2.4
Share premium account		36.7	36.7
Capital redemption reserve		0.5	0.5
Capital reserve – own shares		(4.5)	(6.4)
Currency translation reserve		(4.1)	(2.7)
Other reserves		(5.5)	(25.1)
Retained earnings		(55.1)	(2.6)
Total shareholders' equity		(29.6)	2.8
Non-controlling interests		(11.7)	(0.3)
Total equity		(41.3)	2.5

The notes on pages 107 to 173 are an integral part of these consolidated financial statements. The financial statements were approved by the Directors on 4 March 2020 and signed on their behalf by:

David Wild
Director
Registered number: 03853545