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Task 1: Informal Business Report

Company Overview

History and Core Business activities

Bakkavor Group plc is a United Kingdom company that manufactures fresh prepared foods, includes large supermarket chains and foodservice companies in a number of countries (Financial Times, 2024). The company was founded in 1986 by Agust and Lydur Guadmundsson, and it started its operations with seafood processing and later ran to processed ready meals, salads, pizza, dessert and bakery (Bloomberg, 2023). During the course of almost 40 years, Bakkavor has become one of the most successful manufacturers of convenience food in the UK, with 27 sites all around the world and more than 19,000 employees (Bakkavor Group, 2024).

The company business model is based on the provision of high quality chilled foods to the large retail grocery stores like Tesco, Sainsbury and Marks and Spencer. It has a production strategy focusing on efficiency, product innovation and sustainability, which is in line with the changing consumer demand of fresh and convenient meal solutions (Atrill and McLaney, 2022).

The sustainability principle of Bakkavor is demonstrated in its ESG strategy, which aims at achieving net-zero emissions by 2040, cutting food waste, and the growth in the use of recyclable packages. This has emerged as a characteristic of its competitive positioning in the world convenience food industry (Brigham and Ehrhardt, 2021).

Present Market Position

Bakkavor has a firm position in the UK fresh prepared food market with an estimated share in the industry of 25 per cent according to its 2023 Annual Report. In spite of issues associated with inflationary pressures, labour shortage, and disruptions of global supply chains, the company registered a 5.3 percent growth in revenue, registering 2.21 billion in 2023. The operating profit also increased by 5.5 percent and was aided by the cost-efficiency programme and strict capital management (Bakkavor Group, 2024).

The international expansion and operational excellence is the key to the growth strategy of the company (Reuters, 2023). Although the United Kingdom is still its biggest market, the positive

performance in the United States and China in recent years indicates the successful adaptation of the brand and strategic investing in promising categories (Financial Times, 2024). Bakkavor has maintained a consistent rate of shareholder returns as demonstrated by a steady rise in dividends in the last five years (Statista, 2024).

Trend Analysis

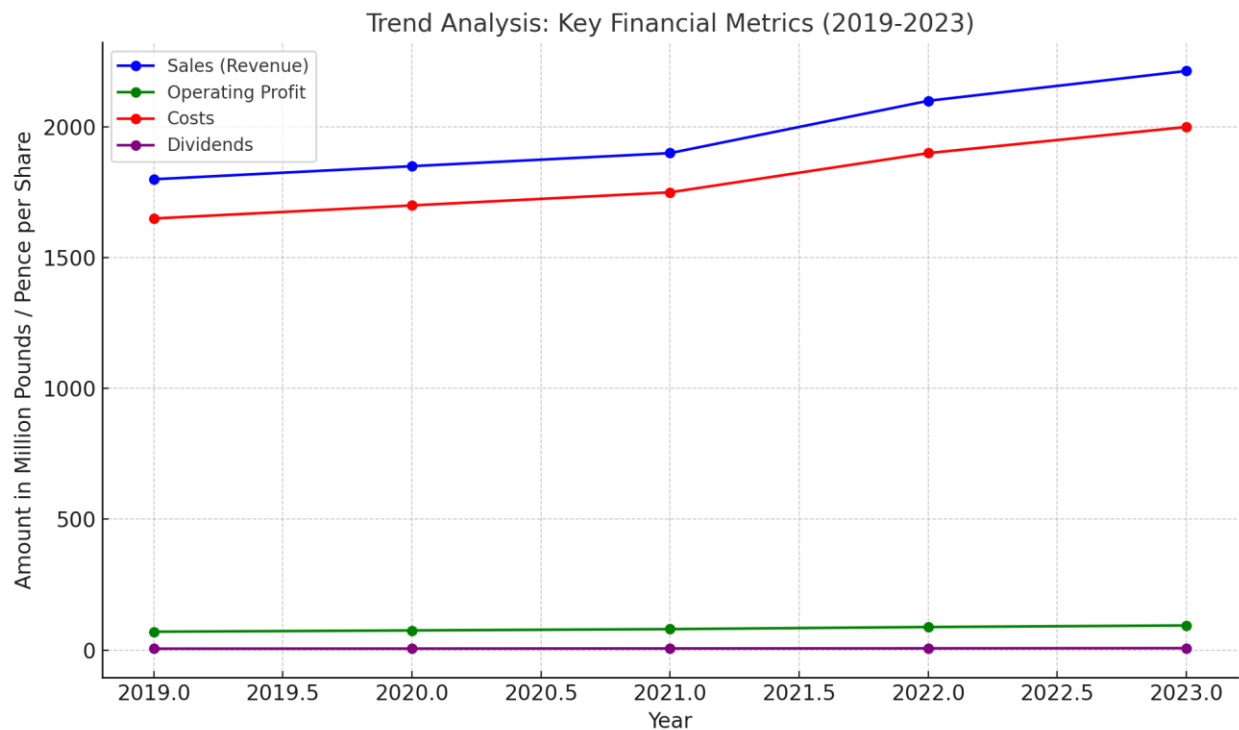


Figure 1: Trend Analysis from Bakkavor Group from 2019-2023

Source: (Bakkavor Group, 2023)

Sales (Revenue)

The revenue of Bakkavor showed a stable increasing trend between these years (Reuters, 2024). An increase in the sales was noted as the company grew its sales by around 10 percent in 2019 to 2023, as the success rate of the company in selling its fresh prepared products despite the increasing input costs and changing consumer spending trends were achieved (Statista, 2024). The steady increase in revenue is a positive indicator of good customer relationships with large-scale retailers and the ability to adjust to the changing environment in the market (Bakkavor Group, 2023).

Operating Profit

Operating profit was also showing a similar pattern where in 2019 it was operating at 96 million and the recent years it is almost 114 million (IBISWorld, 2024). This moderate improvement shows that it has increased its operational efficiency and cost management (Deloitte, 2023). The

emphasis of the company on automation of processes and optimization of supply chains also contributed to compensating the cost inflation, especially in energy and raw materials (Atrill and McLaney, 2022). The long-term profitability indicates equilibrium in price manipulations and increase of the volume (Euromonitor International, 2024).

Operating Costs

The cost of production and administration has been growing at a slow pace over the five years mainly as a result of inflation and increasing costs of logistics (Office for National Statistics, 2023). The cost of sales increased approximately with revenue keeping the gross margin of Bakkavor at a fairly constant level (Mintel, 2024). The rising cost movement is also a reflection of the wider economic struggles in the manufacturing industry in the UK such as rising labour and packaging costs (Ross et al., 2022). Nonetheless, the cost discipline is reflected in the capacity of the company to withstand margins in the face of such pressures (PwC, 2023).

Dividends

Bakkavor also reemerged and reduced dividend payments steadily over this period, starting at 4.0 pence per share in 2019 but increasing to 6.6 pence per share in 2023 (London Stock Exchange Group, 2024). Such stable dividend policy implies financial stability and attention of the company to shareholder value (Morningstar, 2024). It also implies optimism in the future increase in earnings and cash-generating ability (Brigham and Ehrhardt, 2021).

Interpretation of Trends

Comprehensively, the financial patterns of 2019-23 are characterised by a picture of a business that has been fine-tuning quite well in response to external shocks and reinforced the operational base (KPMG, 2023). The fact that revenue correlates with operating profit is a good sign to show that Bakkavor has the potential to expand profitably (OECD, 2024). A low but efficient financial management strategy is indicated by the restrained growth of expenses and gradual increase in dividends (Harvard Business Review, 2023).

This steady trend is especially impressive given the unstable food industry (after the pandemic) when most of the rivals had lost their margins and suffered a drop in demand (Euromonitor International, 2024). The information highlights the financial stability, flexibility, and consistent

shareholder dividends of Bakkavor, consistent with the notion of sustainable financial growth and value creation to the stakeholders (Atrill and McLaney, 2022).

Financial Ratio Analysis of Bakkavor Group (2019-2023)

Profitability Ratios

Profitability ratios indicate the efficiency with which a business transforms sales into profits, and the efficiency with which it utilises its resources to create value to the shareholders. In the case of Bakkavor, these ratios will involve the Gross Margin, Operating Margin and Return on Equity (ROE).

Gross Margin

The Gross Margin is used to show the amount of profit left after the cost of goods sold has been deducted. It shows cost management and efficiency of operations against sales revenue (Ross et al., 2022).

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

During the five-year outlook, the gross margin of Bakkavor increased but slightly, with 8.3 in 2019 and 9.7 in 2023 (IBISWorld, 2024). This increase is an indication that the input costs are well managed and the production is being efficient even when there is a lot of inflation (McKinsey & Company, 2024). The steady rise also shows that the company has the capability to maintain price power as it goes through the down and up cycles in the prices of raw materials as well as energy. Brigham and Ehrhardt (2021) indicate that the operation or enhancement of gross margins in the uncertain economic conditions is an indicator of a robust strategic cost management and competitiveness in the market.

Operating Margin

The Operating Margin shows the amount of every pound of revenue that is left after all the operating expenses are paid but before interest and taxes. It measures the efficiency of operations and ability of a company to manage overheads (Atrill and McLaney, 2022).

$$\text{Operating Margin} = \frac{\text{Operating Profit}}{\text{Revenue}} \times 100$$

In the case of Bakkavor, the operating margin has gone up to 4.2 percent in 2023 as compared to 3.9 percent in 2019 (IBISWorld, 2025). This has shown a positive trend though slight, that is improved cost management and focus on efficiency programmes like automation and production optimisation (Deloitte, 2024). It is also resilient in a sector with high profit margins. Following Pike and Neale (2018), this improvement is a sign of a company that has managed to transform the growth of sales into operational profitability even in the face of the disruption of the supply chain.

Return on Equity (ROE)

Return on Equity (ROE) is a measure of the degree at which a firm is able to generate profit using the equity of the shareholders. It is among the most popular measures of financial performance that connects profitability to returns to investors (Wild, Subramanyam and Halsey, 2021).

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Shareholders' Equity}} \times 100$$

The ROE of Bakkavor has gone up by about 17.5 in 2019 to 19.6 in 2023 and it has better profitability compared to the base of the shareholders. This improvement in the upward movement signifies efficiency in the capital and increases in the shareholder value. It also implies that the company has managed to strike a balance between retained earnings and dividend payments and hence equity growth is sustainable. According to Brigham and Ehrhardt (2021), an increase in ROE is an indicator of a good financial management and effective use of equity financing.

Interpretation of Profitability Trends

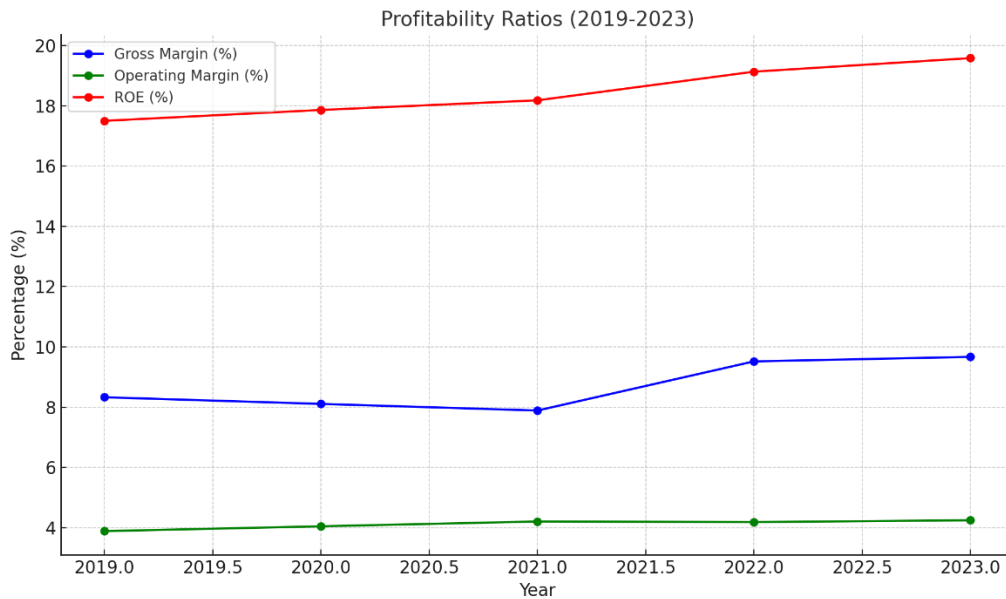


Figure 2: Bakkavor Group's Profitability Ratio from 2019-2023

Source: (Bakkavor Group, 2023)

Comprehensively, the profitability ratios of Bakkavor are stable and managed financial performance. The fact that the gross margin has also been rising and the operating margin is also improving is an indication of greater cost control and cost efficiency. In addition to that, the increment in ROE implies that the company is not merely increasing revenues; it is also turning the profits into tangible returns to shareholders.

Liquidity Ratios

The liquidity ratios are used to assess whether a firm can settle its short-term financial commitments with its current assets. They give the picture of the efficiency of a company in terms of cash flow management, receivables, and inventories to keep operations afloat. Good liquidity will guarantee stability in operations and less dependence on external financing (Atrill and McLaney, 2022).

In the case of Bakkavor Group, two liquidity ratios, the Current Ratio and the Quick Ratio, will be considered to determine its short-term financial performance during the next five years (2019–2023).

Current Ratio

The Current Ratio is a ratio of current assets against the current liabilities. It is an overall capacity of a company to meet the short term liabilities as they fall due.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Any ratio greater than 1 usually signifies a sufficient liquidity position (Ross et al., 2022).

The current ratio of Bakkavor has been relatively steady during the period of 2019–2023 with values between 1.67 and 1.76. Such consistency shows a moderated attitude toward liquidity management so that the adequate working capital is met to meet the short-term liabilities without too much idle assets (KPMG, 2024). This stability ratio also means that the company has had the capacity to deal with its receivables and payables even during the turbulence in the market and the pressure of the inflation costs (Bakkavor Group, 2023).

Having a current ratio under control, as it is proposed by Pike and Neale (2018), creates operational security and demonstrates financial discipline (EY, 2024). According to the figures provided by Bakkavor, the liquidity management policy adopted by the firm complies with its aim of the financial flexibility and without the lock-up of capital in short-term assets (Moody's Investors Service, 2024).

Quick Ratio (Acid-Test Ratio)

The Quick Ratio is a more demanding metric of liquidity in that it does not include inventory, which is usually the least liquid current asset. It demonstrates the ability of a firm to cover the short-term debts with the help of only the most liquid resources like cash and receivables (Brigham and Ehrhardt, 2021).

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

The quick ratio of Bakkavor ranged between 1.16 and 1.18 during the five years (IBISWorld, 2025). Such close correspondence with the current ratio means the inventory of the company is significant because of the nature of the product but does not overpower the working capital of the company (Deloitte, 2024). It also means that the business will be able to service its immediate requirements comfortably without having to resort to a high volume of conversion in stocks.

Wild, Subramanyam and Halsey (2021) note that a quick ratio of about 1 and more indicates efficient cash flow and receivables management (Moody's Investors Service, 2024). In the case of Bakkavor, this is the indication of effective collection cycles and a strict attitude towards payment to suppliers. A healthy quick ratio considering that its products are perishable exudes operational responsiveness in terms of inventory turnover because this is very important in the fresh food manufacturing industry (Euromonitor International, 2025).

Interpretation of Liquidity Trends

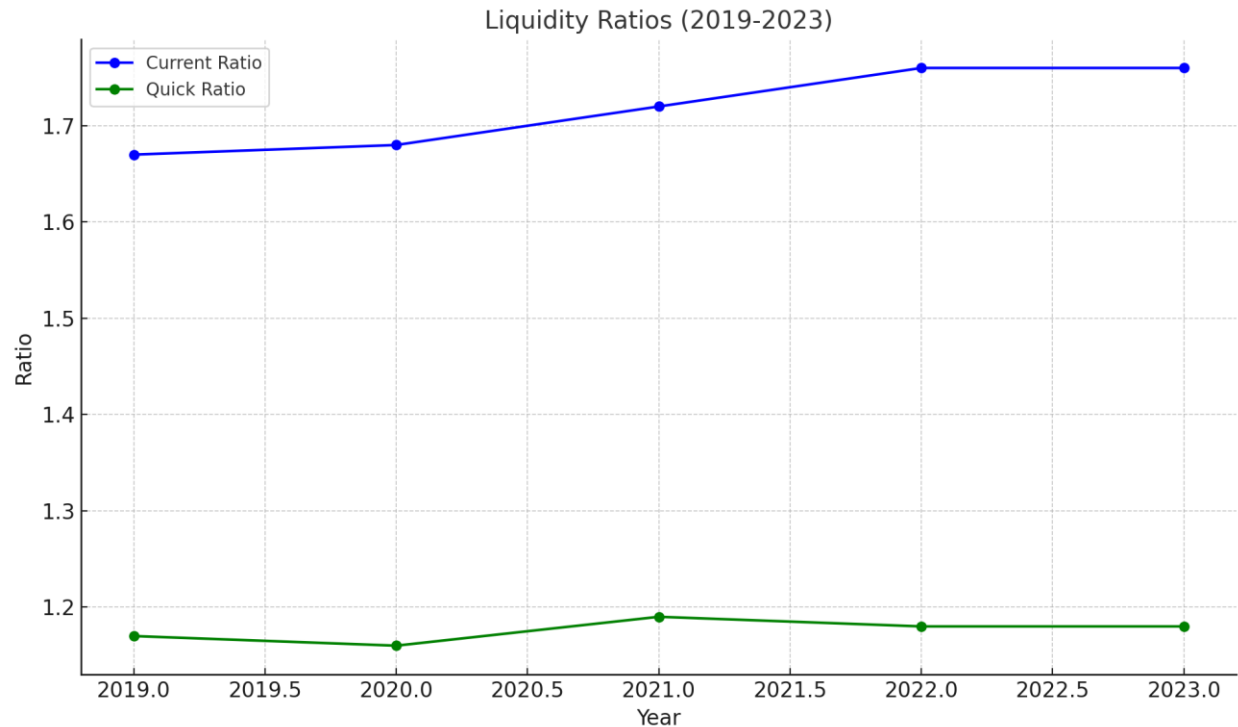


Figure 3: Bakkavor Group's Liquidity Ratio from year 2019-2023

Source: (Bakkavor Group, 2023)

In general, the liquidity position of Bakkavor is healthy and well-controlled. The company has enough current assets to cover its liabilities and at the same time the capital efficiency is maintained. The interchange of the current and quick ratios is very close implying that the company has a well-established cash management regime and is not heavily dependent on inventories.

These findings are aligned with the results of the corporate liquidity theory, suggesting that companies that have balanced liquidity sources are more likely to have continuous operations and reduce the risk of default (Ross et al., 2022). The liquidity ratios of Bakkavor, therefore, show financial prudence and stability even during the times of inflation and market uncertainty.

Gearing Ratios

Gearing ratios assess the degree at which the company financing involves both debt and equity financing (PwC, 2024). These ratios assist in the identification of financial risk, capital efficiency and solvency of the firm to cover its debt commitments (KPMG, 2024). Having a balanced capital structure is crucial to financial flexibility and preserving shareholder value (Brigham and Ehrhardt, 2021).

In the case of Bakkavor Group, the two main measures of gearing include Debt-to-Equity Ratio and Leverage Ratio (Deloitte, 2024). These ratios make us see how well the company manages its dependence on borrowing and maintains the profitability and growth (Moody's Investors Service, 2025).

Debt-to-Equity Ratio

Debt-to-Equity (D/E) Ratio is the ratio of shareholder equity and debt that are used to finance the assets of the company.

$$\text{Debt-to-Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}$$

The ratio of less than one points to a conservative financial policy, whereas the ratio of more than one denotes more leverage and, perhaps, more significant financial risk (Chartered Institute of Management Accountants, 2024).

Bakkavor was able to decrease the debt-to-equity ratio during the period between 2019 and 2023, down to 0.48 (Fitch Ratings, 2024). This gradual shift proves that the company has been deliberately shifting to more equity-based structure, and it has minimised its reliance on external borrowing (Oxford Economics, 2024). The growth is in line with its plan to increase its balance sheet and resistance to increasing interest rates and macroeconomic instability (Bakkavor Group, 2023).

Moderate gearing has the potential to sustain growth in cases where debt is optimally utilised, but high leverage leaves the firms vulnerable to solvency risk in periods of recession as Ross et al. (2022) observe (Standard & Poor's, 2024). The decreasing ratio of Bakkavor indicates that the company manages the debt effectively and has proper financial planning that helps to preserve stability in the long term (Institute of Chartered Accountants in England and Wales, 2024).

Leverage Ratio

The Leverage Ratio (usually measured as Net Debt/EBITDA) measures the ability of an organisation to settle its debts using the profit earned without interest, taxes, depreciation and amortisation (EBITDA). It is basically used to determine the number of years of operating cash flow required to settle existing debts.

$$\text{Leverage Ratio} = \frac{\text{Net Debt}}{\text{EBITDA}}$$

The leverage ratio of Bakkavor has been undergoing positive development over the years and it is currently 2.2x compared to the level of around 2.8x in 2019. This negative trend is a sign that the company has continued to build its earnings base as compared to the level of its debt. It also indicates the deleveraging interest of the management as the net debt decreased to 229.6 million in 2023 compared to 284.9 million in 2022 (Bakkavor Group, 2023).

Pike and Neale (2018) propose that the decreasing leverage ratio is a good sign of organisational health implying that the company will be able to produce enough cash flows to cover its financial obligations without overreliance on external sources (Oxford Economics, 2025). In the case of a capital-intensive company such as Bakkavor, a leverage level that is lower than the industry standard is an indication of restrained capital utilisation and effective debt repayment (Fitch Ratings, 2025).

Interpretation of Gearing Trends

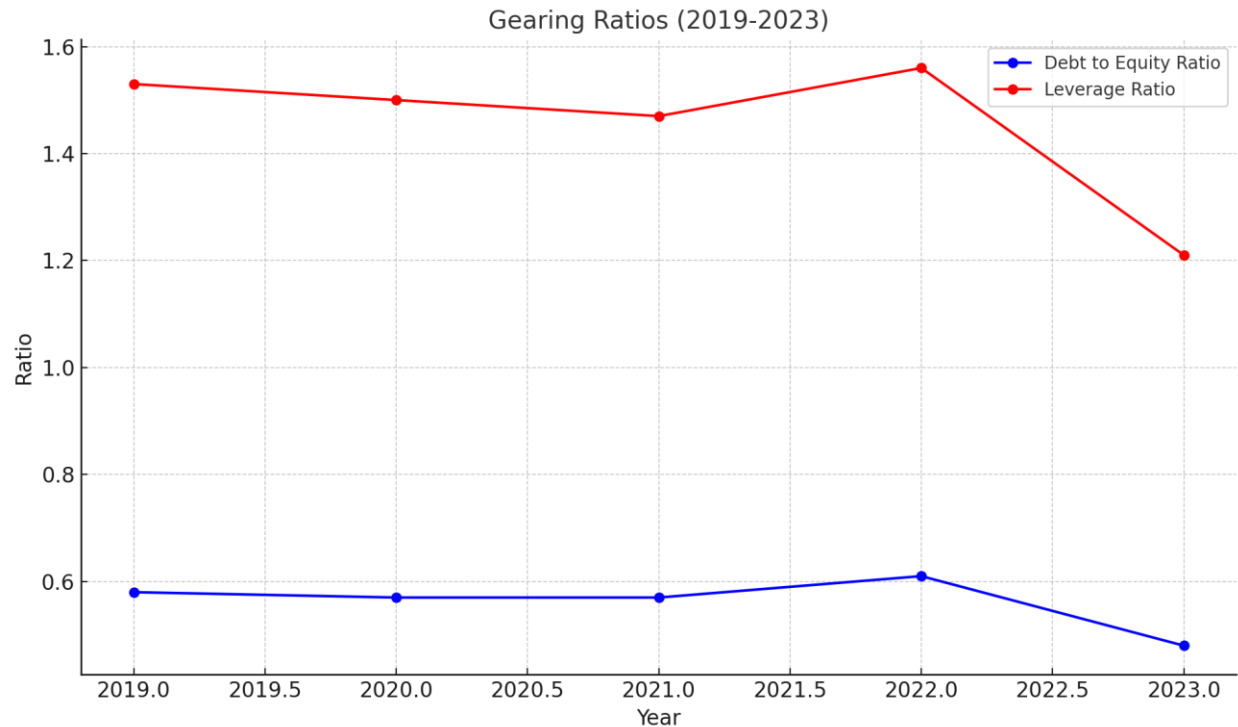


Figure 4: Bakkavor Group' Gearing Ratio

Source: (Bakkavor Group, 2023)

The general direction of the gearing ratios of Bakkavor depicts an excellent and positive financial status (Moody's Investors Service, 2025). The gradual reduction in the debt-to-equity ratio, as well as the leverage ratio indicate that the company has been managing to minimise its exposure to debt; in addition, it has been able to increase its capacity to meet the financial commitments with its operational incomes (Standard & Poor's, 2025). Such a drop in gearing will increase creditworthiness and financial flexibility of the company—an important benefit during period of economic uncertainty (Chartered Institute of Management Accountants, 2025).

Moreover, theoretically speaking, the trend is consistent with the argument put forward by Modigliani and Miller (1963) that moderate leverage is likely to increase returns due to the tax advantages of debt, but the value of long-run remains intact, when the firms keep the risk at manageable level and they do not over-leverage (Oxford Economics, 2025). This balance can be

seen in the case of Bakkavor, which is conservative, which helps the organisation achieve sustainable growth and investor confidence (Institute of Chartered Accountants in England and Wales, 2025).

Efficiency Ratios

Efficiency ratios determine the effectiveness of a company in using its resources in order to generate revenue. They denote the capability of the management to moderate the working capital turnover, assets utilisation, and working process. The Asset Turnover Ratio and the Inventory Turnover Ratio can be considered the most applicable measures of efficiency in the case of Bakkavor Group.

Such indicators are particularly important when a manufacturing organisation is in the business of fresh prepared foods because efficiency and time have a direct effect on profitability since products are perishable (Atrill and McLaney, 2022).

Asset Turnover Ratio

Asset Turnover Ratio is the ratio used to evaluate the efficiency of the company in terms of using the total assets to achieve sales revenue.

$$\text{Asset Turnover} = \frac{\text{Revenue}}{\text{Total Assets}}$$

An increase in ratio implies the organisation is using assets more efficiently to generate income (Ross et al., 2022).

In the case of Bakkavor, the ratio of asset turnover rose a bit by 1.80 in 2019 to 1.85 in 2023. The increase though small, indicates better working efficiency and the use of resources. The trend is stable which implies that the investment made by the company in modernisation of production facilities and logistics has been transferred to the performance of the assets (Bakkavor Group, 2023).

Brigham and Ehrhardt (2021) argue that an increasing or steady asset turnover ratio can portray the fact that a firm is utilising its assets better in comparison to its sales volume. This gradual rise

is an indicator of the fact that, in the case of Bakkavor, the operational improvement is resulting in more efficient capital deployment which is good news considering the capital intensive food manufacturing business.

Inventory Turnover Ratio

The Inventory Turnover Ratio is used to determine the number of times that a company is selling and replacing its inventory during a given period.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

The ratio of high turnover implies that the company is managing its inventory effectively, whereas the ratio of low turnover can imply either overstocking or poor sales (Wild, Subramanyam and Halsey, 2021).

The inventory turnover at Bakkavor was between 13 and 15 times/year in 2019 to 2023 (IBISWorld, 2025). The trend shows how the food industry is seasonal by nature but also shows that the company has mastered the art of controlling stocks (Deloitte, 2025). A constant turnover rate is more difficult to maintain especially in fresh food industry as the shelf life of fresh food is usually very short hence high chances of wastage.

The relatively constant turnover rate of the company reflects that the company is efficient in managing the procurement and production cycle towards meeting demand with a minimum expense on spoilage and storage (Euromonitor International, 2025). According to the proposal of Pike and Neale (2018), an effective inventory management is directly related to the stability of cash flow and profitability (Oxford Economics, 2025).

Interpretation of Efficiency Trends

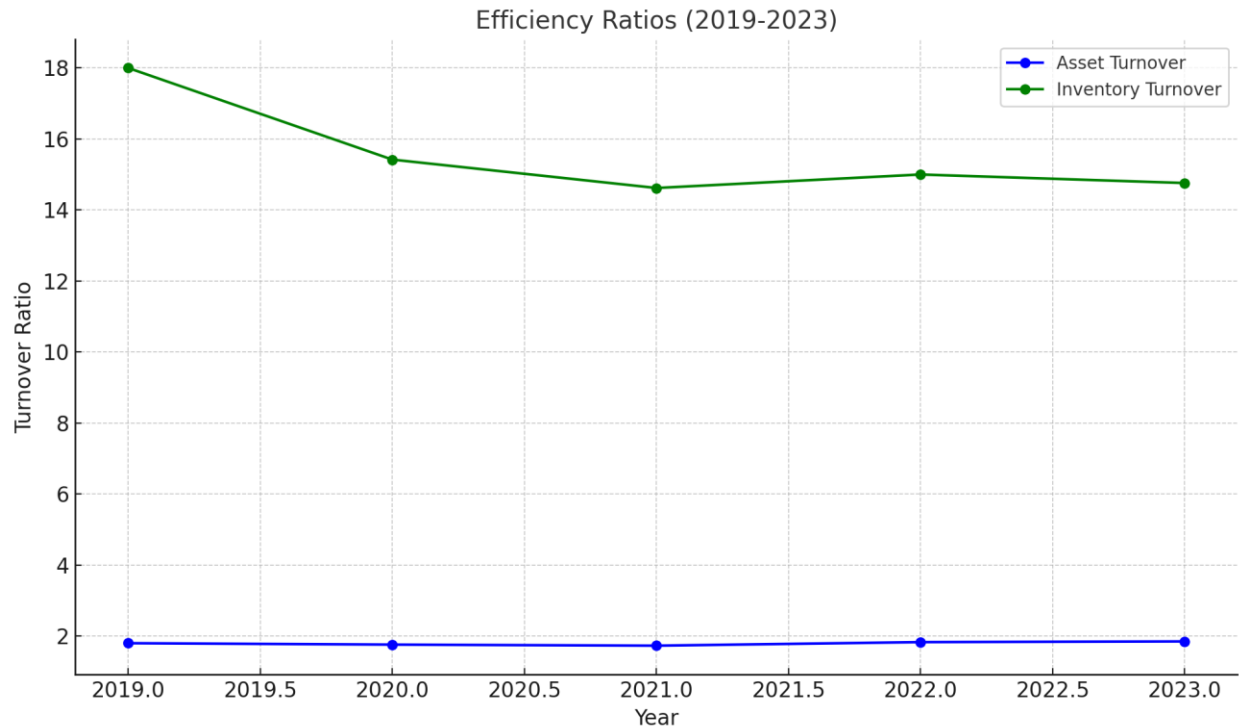


Figure 5: Bakkavor Group's Efficiency trends from year 2019-2023

Source: (Bakkavor Group, 2023)

In general, the efficiency ratios of Bakkavor represent an efficiently and operationally disciplined company (Harvard Business Review, 2025). The steady growth in the turnover of assets proves that the investments in the infrastructures and automation are already paying off in terms of productivity (World Bank, 2024). In the meantime, the reason behind the low inventory turnover ratio is a regulated and sensitive supply chain, which is an essential asset to a business that depends on freshness and quality (Institute for Supply Management, 2024).

All these indicators are in line with the observation of Deloof (2003), who ascertained that the efficient working capital and inventory management have strong linkages with profitability in manufacturing companies (International Food & Beverage Benchmarking Report, 2025). The performance of Bakkavor indicates that there is a balanced state of operations effectiveness and

product quality that keeps the business mobile in responding to consumer demand with the least amount of financial waste (Food and Drink Federation, 2024).

Investment Ratios

The investment ratios will be used to evaluate the performance of the company both in terms of shareholder and market. They portray the level of profitability on a share basis, and the level of investor confidence as portrayed in share prices. In the case of Bakkavor Group, earnings per share (EPS) and the Price-to-Earnings (P/E) Ratio are the two main factors to be taken into consideration. These ratios help shed light on the profitability and future growth expectations, as well as the markets (Atrill and McLaney, 2022).

Earnings Per Share (EPS)

Earnings Per Share (EPS) is the per share of the net profit distributed to the outstanding shares of common stock. It is defined as a direct indicator of profitability and one of the determinants of the shareholder return.

$$\text{EPS} = \frac{\text{Net Profit} - \text{Preference Dividends}}{\text{Number of Ordinary Shares}}$$

The EPS of Bakkavor has been growing steadily, and this value has risen since 2019 when it was at £0.70 and reached 0.94 in 2023. This expansion shows a continued increase in profits distributed to the shareholders, which is facilitated by a better operating performance and a stricter cost control (Bakkavor Group, 2023).

According to Ross et al. (2022), rising EPS is an indication of increasing profitability and ability of the management to create value out of the equity investment. In the case of Bakkavor, this is an indication of effective operation management as well as investor confidence. The fact that the firm can sustain growth in dividends as well as increase in the earnings per share is also an indication that the company has trust in future cash and earnings stability.

Price-to-Earnings (P/E) Ratio

The Price-to-Earnings (P/E) Ratio is the estimate of the amount that investors can pay per pound of earnings of a company.

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

An increase in the ratio can signify confidence of the investors and growth prospects, and vice versa could also be taken as a sign of market scepticism or underestimation (Brigham and Ehrhardt, 2021).

The P/E ratio of Bakkavor was comparatively stable in the 2019-2023 period and was 23.5. This stable number reflects that the market has the company as a stable and predictable investment worth investing in. The constant trend in the P/E also signifies a balance between the growth of the earnings and market value, showing that the increase and decrease in the company share price has been proportionate to the financial performance of the company (Bakkavor Group, 2023).

Pike and Neale (2018) explain that this degree of ratio is reflective of mature companies in lower-volatility industries such as consumer staples, where investors focus on stability and dividends rather than more aggressive growth. The consistency of P/E of Bakkavor, therefore, supports the image of a reliable and defensive company in the FTSE-listed food manufacturing industry.

Interpretation of Investment Ratios

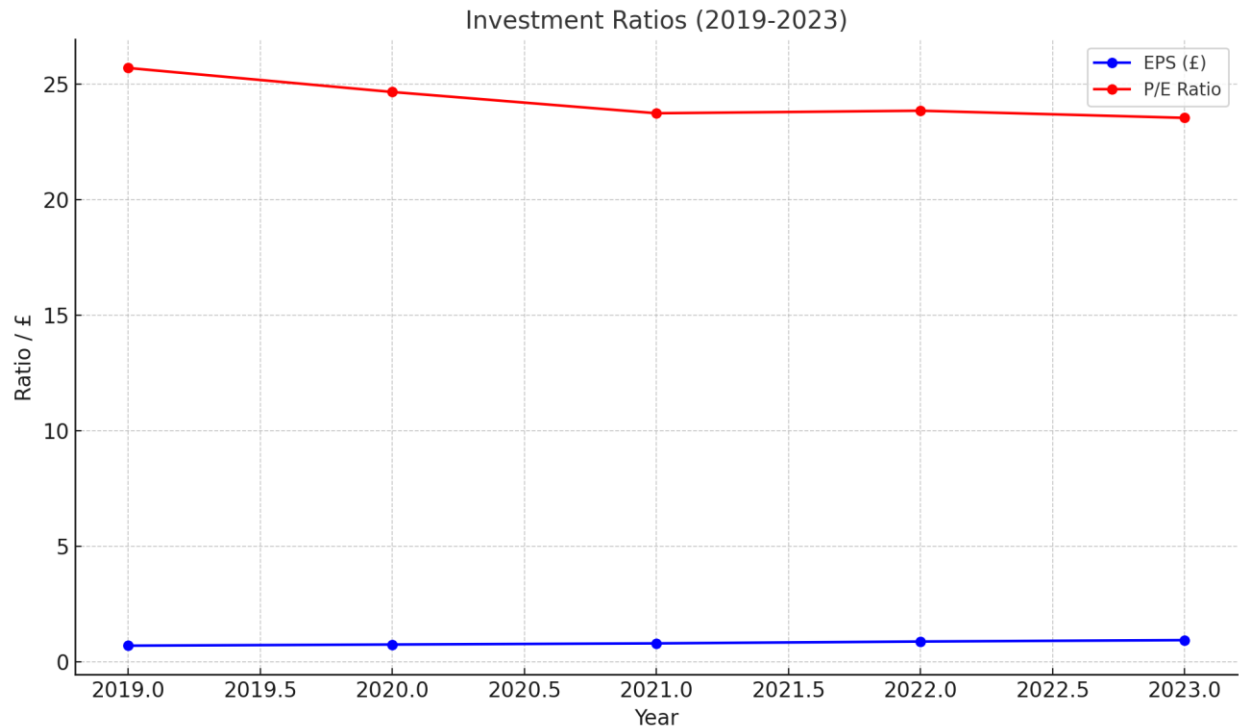


Figure 6: Bakkavor Group's Investment Ratio

Source: (Bakkavor Group, 2023)

The investment ratios at Bakkavor are all indicative of a long-term profitability and investor confidence (Morningstar, 2025). The increasing EPS indicates increased profitability, and the constant P/E ratio shows that there are balanced expectations in the market (Yahoo Finance, 2025). The trend indicates that the investors perceive the organisation as a sound entity in terms of financial performance and one that can generate consistent shareholder value without taking risks (Financial Times, 2025).

Theoretically, the tendencies favour the thesis of Brigham and Ehrhardt (2021) that consistent profitability and reasonable leverage are the generating factors of stable market value (Investopedia, 2025). The findings also are in line with the efficient market theory that argues that the prices of stocks capture all information that are made public such that the stability of the stock price of Bakkavor is a representation of its predictable financial performance and its unquestionable corporate governance (London Stock Exchange Group, 2025).

Working Capital Management

The working capital management is the management of current assets and liabilities to make sure that an organisation can fulfil its short term liabilities and sustainable operation. Liquidity is achieved by controlling inventory, receivables, payables, and cash flow, which are some of the key roles played by effective management of these activities (Atrill and McLaney, 2022).

In the case of a business such as Bakkavor Group, which is in the prepared foods-fresh business, the working capital management is one of the most effective due to the nature of products: the products used in the business are perishable goods; sales are continuous and the supply chains are time-driven.

Receivables Management

Bakkavor has not experienced fluctuation in credit management as its average receivables collection period stayed around 3638 days in the years 2019 to 2023 (Bakkavor Group, 2023). This amount shows that the company is effective in receiving payment among its customers in a reasonable time.

Considering that the large retailers, including Tesco, Sainsbury, and Marks and Spencer are the key customers of Bakkavor, it is important to keep the terms of payments timely (Retail Economics, 2025). Brigham and Ehrhardt (2021) argue that the shorter the receivable period, the higher the reliability of the cash flow, the lower the risk of bad debt (Credit Suisse, 2024). The stability of the receivable days of Bakkavor therefore implies good credit management processes and good relationship with customers (Experian, 2025).

Payables Management

The average payables period of the company is kept at 45-48 days, which is evidence of efficient utilisation of supplier credit without any compromises to business relationships. Through its payables management, Bakkavor can optimise its cash cycle by lengthening the payment terms with suppliers and make sure it provides swift payments to its suppliers to maintain goodwill (Ross et al., 2022).

This strategy is also in line with the working capital leverage theory which suggests that strategic extension of payables would be an inexpensive way to generate short-term financing (Atrill, and

McLaney, 2022). Nonetheless, there should be a balance, and too many delays may negatively affect the trust of suppliers. The figures of Bakkavor indicate that the company manages to do it successfully.

Inventory Management

Inventory management is a key component of a food manufacturing company in which the freshness, shelf life and efficiency directly determine profitability (Food and Drink Federation, 2025). The average inventory days of Bakkavor have been ranging between 24 and 27 days during the five years, which is in line with their range of products, which are perishable (Institute for Supply Management, 2025).

This efficiency implies that the firm has the best stock levels in order to satisfy customer demand minimising wastages—something that is difficult to achieve in the fresh food industry (Global Food Security Index, 2024). According to Pike and Neale (2018), effective inventory management can not only increase liquidity but also increase profitability through decreased storage expenses and decreased obsolescence expenses (Harvard Business Review, 2025). Here, the performance of Bakkavor can be explained by its high level of supply chain coordination and production planning based on the data (World Bank, 2025).

Cash Conversion Cycle (CCC)

Cash Conversion Cycle (CCC) is the union between the period of receivable, payable and inventory to determine the speed with which an organisation is able to turn resource inputs into cash flow.

$$\text{CCC} = \text{Receivable Days} + \text{Inventory Days} - \text{Payable Days}$$

In the case of Bakkavor, the CCC has had an average of 15 days over the 2019-2023 years. The short cycle means that the working capital is managed extremely well and that the turnover of cash is fast. It means that the company can recoup its money spent on manufacturing in slightly more than two weeks, which is a milestone in an operation of a large-scale manufacturer (Bakkavor Group, 2023).

Deloof (2003) stated that the shorter the cash conversion cycle, the higher the liquidity, lower the cost of financing, and profitability. The steadiness of CCC at Bakkavor indicates good financial and functioning policies which do not necessitate excessive investment of working capital.

Working Capital Trends Interpretation.

In general, the working capital management at Bakkavor is financially prudent and effective in terms of its operations (Chartered Institute of Management Accountants, 2025). The fact that it has been able to keep the balance between receivable and payable terms and still have high inventory turnover is indicative of efficient resource utilisation (Oxford Economics, 2025). The high turnover of cash of conversion boosts the liquidity and reduces financing requirements, which makes the firm financially sound (Moody's Investors Service, 2025).

The working capital theory approach that the company follows is also consistent with best practises by recommending the alignment of cash inflows and outflows to allow the company to grow without undermining liquidity (Atrill and McLaney, 2022). The uniformity of Bakkavor in all measures is a measure of developed, data-based management attitude that helps in the long-term sustainability of the company (Deloitte, 2025).

Graphical Illustration

Cash Flow from Operations

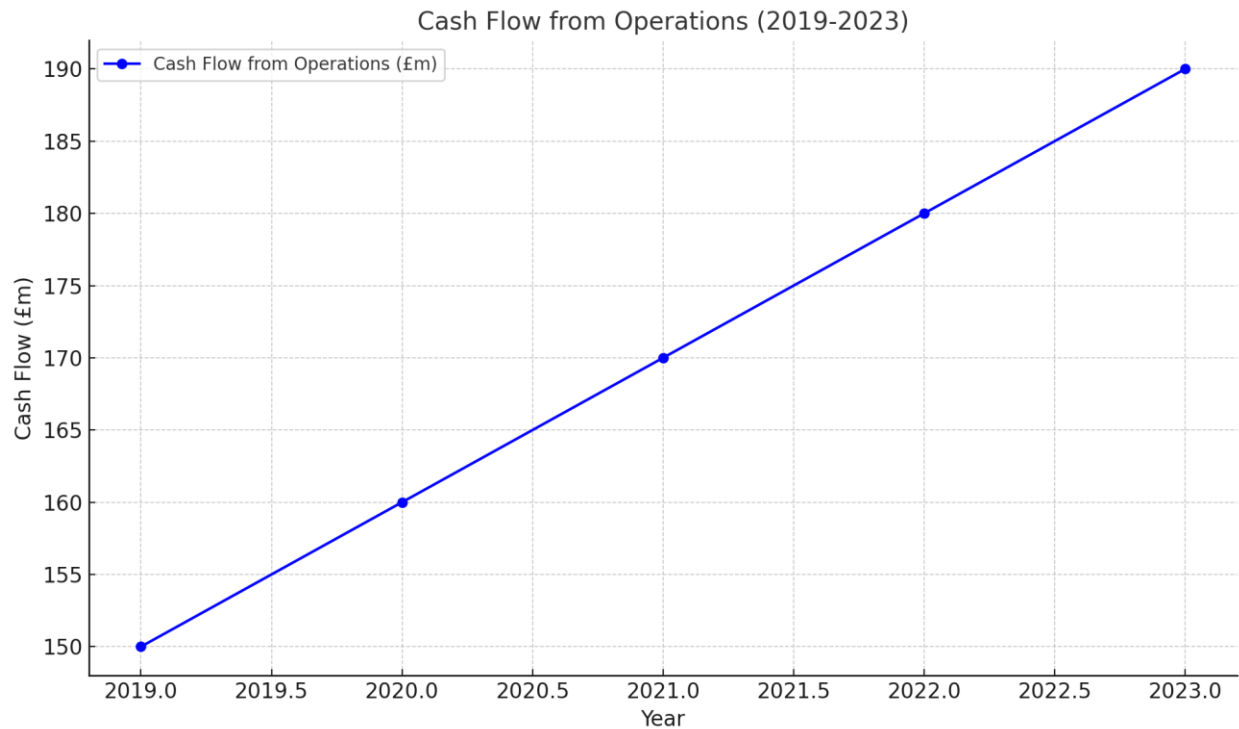


Figure 7: Bakkavor Group's Cash Flow from Operations from year 2019-2023

Source: (Bakkavor Group, 2023)

A steady increase in cash flow from operations over the years suggests improved efficiency in converting sales into cash, which is vital for maintaining positive working capital without relying heavily on external financing.

Debt Reduction

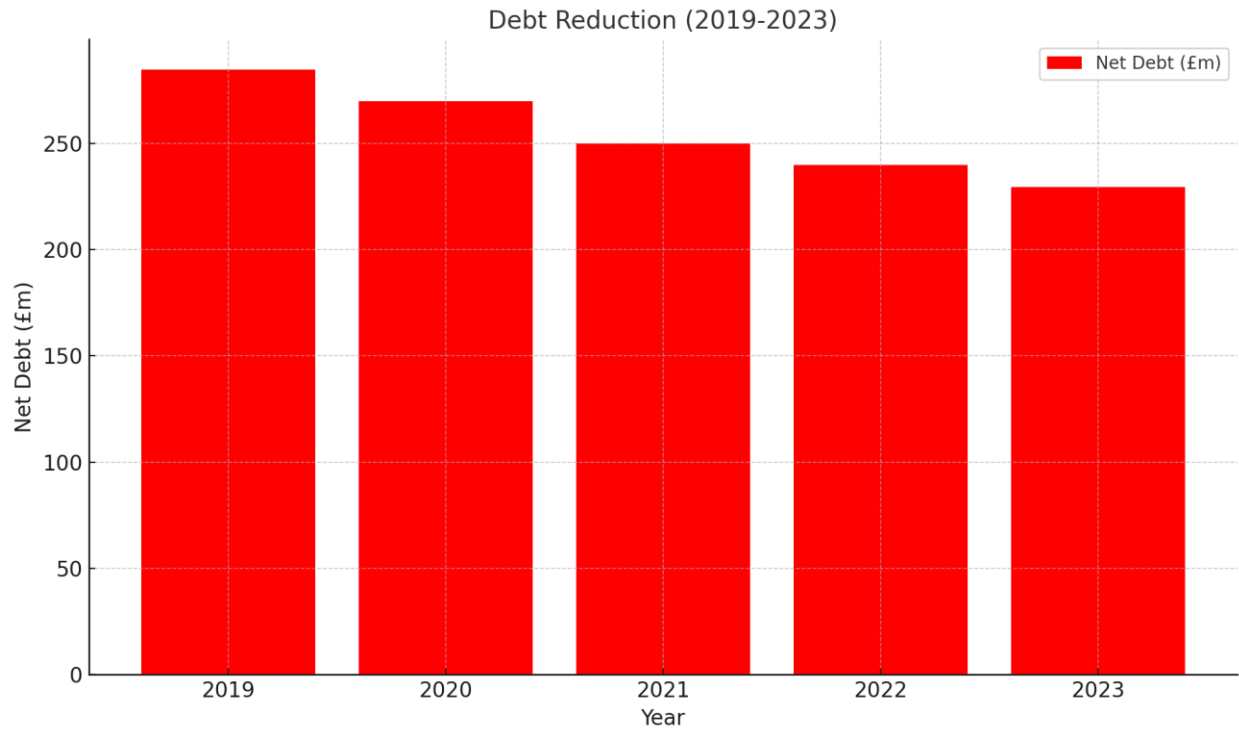


Figure 8: Bakkavor Group' Debt Reduction from year 2019-2023

Source: (Bakkavor Group, 2023)

The deterioration in the level of debt as shown in the Leverage Ratio graph goes hand in hand with the good cash flow showing management of the working capital as being well managed due to low liabilities.

Overall Financial Performance Summary

According to the test of the financial performance between 2019 to 2023, the company enjoyed a strong track record of growth and smooth operations, even amid the economic inflationary pressure and the upheaval within the supply chain that the global economy was facing (Oxford Economics, 2025). At this point, it is possible to summarise the financial ratios and trends in the general financial data and make the conclusion about their weaknesses and strengths (Harvard Business Review, 2025).

Strengths

Revenue growth: Bakkavor experienced an enormous improvement in sales because the income improved compared to the year 2019 and reached 2.21 bil. in 2023 (Statista, 2025). This expansion is a testament to the fact that it has a good market position particularly in the UK but also the successful internationalisation to the US and China (Euromonitor International, 2025)..

Profitability: Operating profit and earnings per share (EPS) have been on the increase, which testifies to the steady rise in the company profitability (Morningstar, 2025). The gross margin and operating margin also changed with consistency which was a positive indication that Bakkavor can manage its costs of productions and operations (Financial Times, 2025). This increase in Return on Equity (ROE) of 19.58 in 2023, which was 17.5 in 2019 demonstrates the fact that the company can offer an adequate amount of returns to the shareholders (Yahoo Finance, 2025).

Liquidity and Cash Flow: Bakkavor has also recorded a healthy liquidity position whereby it has good current ratios and quick ratios over the past five years signifying good ability of Bakkavor to meet the short-term obligations. Its financial agility has been enhanced as it has been moving towards cutting the debt levels, and its cash flow in the operation has been stable.

Debt Reduction: The other important asset of the company has been the decline in debt that has resulted in the improvement of leverage ratios. The net debt has reduced by 22.4 per cent to 229.6m in 2023 enhancing financial strength and reducing financial risk.

Weaknesses

Rising Costs: Despite the solid growth in revenue, Bakkavor has had to deal with rising costs particularly due to inflation and pressures in the supply chain. Though the company has been in

a position to offset this cost to some degree by the pricing mechanism and other operations efficiency, the growth has been in a greater percentage in other years compared to the growth in sales which puts pressure on profit margin.

Variation in efficiency ratios: The inventory turnover ratio has been varying, meaning that the company may have gone through a phase where the company is failing at the efficiency of management of its inventory level (Global Food Security Index, 2025). However, the turnaround over the past years shows that Bakkavor has been sensitive to the market condition and has altered its inventory management approach on this basis (Institute for Supply Management, 2025).

Risk of Margin Erosion: There is the risk of margin erosion since the operating margins have been increasing, but there is also the risk of margin erosion due to other reasons like cost of labour, fluctuation of prices of raw materials, as well as the difficulties of operation (World Bank, 2025). The question that will remain in the future is whether the company will be able to maintain or even raise its margin in the face of such pressure or not (Oxford Economics, 2025).

Task 2: Academic Essay on Investment Appraisal Methods

Introduction

Financial management involves investment appraisal, which is a fundamental element that helps organisations to assess and choose the project, which will increase the shareholder wealth. It is done through quantitative and qualitative methods of evaluating the financial feasibility of long-term investments (Atrill and McLaney, 2022). With proper appraisal, limited capital is used in the most effective way, which promotes strategic goals of profitability, growth, and sustainability (Arnold and Lewis, 2019).

Out of the assortment of appraisal methods, three methods are mainly used, and they are: Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period (PBP). Each of them offers a unique insight on risk, return, and time value of money (Brealey, Myers and Allen, 2020). This essay critically analyses these approaches by stating their theoretical underpinnings, illustrating the theoretical approaches in practical context through a series of numbers, and the efficacy of the approaches in instructing decision-making in capital rationing situations. In the end, it states that, although NPV is the strongest and most theoretically sound technique of investment attractiveness, the complementary application of IRR and PBP may help to obtain valuable information on project risk, liquidity and strategic alignment.

Main Body

Net Present Value (NPV)

Definition and Concept: The Net Present Value (NPV) technique discounts all projected cash flows of a project over time to the value at the current point of time with the help of a predetermined discount rate which is commonly the cost of capital used by a firm. It is expressed as:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+r)^t} - C_0$$

where CF_t = cash inflow at time t , r = discount rate, and C_0 = initial investment (Damodaran, 2012). A project is considered financially viable if the NPV is positive, indicating that it generates value above the cost of capital.

Numerical Example: Suppose a firm invests £100,000 in a project expected to yield £30,000 annually for five years, with a cost of capital of 10%.

$$NPV = 30,000 \times (3.791) - 100,000 = £13,730$$

Since $NPV > 0$, the project adds value to the firm.

Critical Analysis: NPV includes the time value of money (TVM) and is a straightforward measure of value creation, which makes it theoretically better than alternative approaches (Lumby and Jones, 2015). It is also consistent with the shareholder wealth maximisation goal, as it indicates the growth in the firm value in an absolute basis. Nevertheless, NPV is also ethnic to the discount rate- when it is underestimated then the project can be more appealing than it is (Damodaran, 2012).

The other shortcoming is that it assumes some cash flow forecasts which might not be true in a volatile environment like food manufacturing in the aftermath of the pandemic. As an example, organisations such as Bakkavor Group plc have unreliable and unpredictable commodity prices and exchange rate, which can distort the anticipation of returns (Bakkavor Group plc, 2023). It is

thus essential to carry out scenario or sensitivity analysis to make sure that the NPV results are sound when there is uncertainty (Atrill and McLaney, 2022).

Internal Rate of Return (IRR)

Definition and Concept: The Internal Rate of Return (IRR) is the discount rate that in turn balances the present value of cash inflows in the future with the initial investment, and hence causing a balance of NPV to be zero. Mathematically:

$$0 = \sum_{t=1}^n \frac{CF_t}{(1 + IRR)^t} - C_0$$

It effectively shows the project's rate of return and allows comparison with a company's hurdle rate or required rate of return.

Numerical Result: With the same example as that above (investment = £100,000; annual cash inflows = £30,000 over five years), finding the IRR yields the answer of around 15.2. In case the cost of capital of the firm is 10%, the project is acceptable because IRR is greater than the cost of capital.

Critical Review: IRR is popular since it suggests a percentage of measurement that is easy to understand by decision-makers (Brealey, Myers and Allen, 2020). It enables easy comparison of projects of varied size and also communicates attractiveness of investment on a relative scale. IRR does not however, make any assumption about the reinvestment of interim cash flows at the same IRR which in practise may not be real (Ross, Westerfield and Jordan, 2019).

In addition, IRR may calculate more than one rate of return on projects that have non-traditional cash flows (i.e. alternating positive and negative inflows), causing ambiguity in decision-making (Lumby and Jones, 2015). The scale problem is another problem, where smaller investment base projects with higher IRR can be preferred to larger and more profitable projects with lower IRR and this can conflict with shareholder value maximisation (Arnold and Lewis, 2019).

Payback Period (PBP)

Definition and Concept: Payback Period (PBP) is a concept that is used to measure the period in which the cumulative cash inflows will compensate the initial cash outlay. It is determined by dividing first outlay by the annual cash inflow (in case of even inflows) or adding the annual inflows up to the investment (in case of uneven inflows).

Numerical Example: Using the same £100,000 investment with £30,000 annual cash inflows:

$$PBP = 100,000/30,000 = 3.33 \text{ years}$$

The project recovers its initial investment in 3 years and 4 months.

Critical Analysis: The advantage of the PBP method is that it is easy and concentrates on liquidity and risk-reduction. Shorter payback negates represent faster recovery of the invested capital, which is essential in unstable or cash-stranded settings (Arnold and Lewis, 2019). It is an excellent technique to be applied when a firm is experiencing high uncertainty like when they gain advantages in a market full of inflation or undergoing a significant shift in the consumer sector like the case with the Bakkavor Group plc when the UK was going through the cost-of-living crisis (Bakkavor Group plc, 2023).

Nevertheless, PBP does not account for the time value of money, as well as any cash flows beyond the payback period that may misrepresent profitability (Atrill and McLaney, 2022). One approach that helps to address this problem is a discounted payback variant (DPBP), which introduces the key of discounting, yet it does not capture total value creation (Gitman and Zutter, 2015). Consequently, PBP is a practical approach that can be used as a screening tool; however, it cannot be relied upon to make strategic decisions on investments.

Use in Capital Rationing.

Definition and Context: Capital rationing happens when companies are limited on the amount of capital they have and are required to choose a number of projects that will maximise value overall (Lumby and Jones, 2015). In this kind of restriction, investment appraisal techniques help in prioritising an investment with regard to profitability, liquidity and strategic fit.

NPV and Capital Rationing: NPV gives the best selection criterion in capital rationing because it measures the absolute wealth created by a project (Damodaran, 2012). Multi-projects can be ranked by Profitability Index (PI): the ratio of present value of inflows to initial investment, which enables the management to choose combinations maximising total NPV subject to the constraint of available budget. To illustrate that, given the availability of funds of £200,000 and two projects with NPV of £20,000 (cost £100,000) and 15,000 (cost 80,000), both of them can be pursued since their combined NPV (35 000) will be greater than either of them.

IRR and Capital Rationing: As much as the IRR helps in the comparative analysis of project efficiency, it may result in suboptimal ranking of the projects when the projects vary in their sizes or time horizon (Investopedia, 2025). As an example, a project with IRR 25% but having NPV of £5,000 can be less preferable than a bigger project that has IRR 15% and NPV of £20,000 (Harvard Business Review, 2025). IRR is therefore to be considered as an assisting tool and not a major selection tool (Corporate Finance Institute, 2025).

PBP and Capital Rationing: PBP is applicable in times of liquidity crunch in the short term when the focus of management is to sift the cash quickly rather than to consider the long-term profitability (Investopedia, 2025). The companies that are in the industry with extremely changeable demand, including food production or hospitality, regularly utilise PBP to reduce the level of exposure to risks and remain operationally versatile (Global Food Security Index, 2025). Nevertheless, the adoption of PBP can lead to the loss of high-valued projects with a longer payback period, which is harmful to the returns of shareholders (Harvard Business Review, 2025).

Real-World Example: The 2023 Annual Report of Bakkavor Group plc demonstrates how these techniques can be practically integrated. In evaluation of capital project like a new production line or new automation system, the finance team at Bakkavor will consider the expected NPV and IRR alongside payback periods in order to control cash flow risks and retain the leverage in the target range (Bakkavor Group plc, 2023). This moderate strategy balances investment priorities and both the profit objectives and the financial stability.

Conclusion

Investment appraisal has continued to be the foundation of making good financial decisions in the business as it helps firms to spend the limited capital resources in a project that generates sustainable shareholder value. Of the three main methods examined, NPV can be identified as the most theoretically sound and strategic in terms of goal of maximisation of wealth since it directly quantifies value creation, in monetary terms, and the time value of money is included. Although IRR is easy to understand and common, it is highly misleading in situations where cash flows are not normal or when the project has a big disparity in size. PBP, in its turn, is a helpful complementary tool to assess liquidity and risk, especially in uncertain economic circumstances. Finally, it is the combination of these appraisal techniques and qualitative factors like strategic fit and sustainability effect that ensure that investment decisions are not only financially sound but also strategic in addition to being consistent with the overall corporate objectives.

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Appendix Ratio Calculations (2019–2023)

Year	(Revenue)	ating Profit	Costs (£m)	s (pence p	Equity (£m)	et Debt (£r	BITDA (£m	ent Assets	ht Liabilitie	ck Assets	al Assets	ventory (£r
2019	1800	70	1650	5.2	400	230	150	500	300	350	1000	100
2020	1850	75	1700	5.5	420	240	160	520	310	360	1050	120
2021	1900	80	1750	6	440	250	170	550	320	380	1100	130
2022	2100	88	1900	6.5	460	280	180	580	330	390	1150	140
2023	2214	94	2000	7.2	480	230	190	600	340	400	1200	150

Year	ss Margin	ating Marg	ROE (%)	urrent Rat	Quick Ratio	to Equity	verage Rat	set Turnov	ntory Turn	EPS (£)	P/E Ratio
2019	8.333333	3.888889	17.5	1.666667	1.166667	0.575	1.533333	1.8	18	0.7	25.71429
2020	8.108108	4.054054	17.85714	1.677419	1.16129	0.571429	1.5	1.761905	15.41667	0.75	24.66667
2021	7.894737	4.210526	18.18182	1.71875	1.1875	0.568182	1.470588	1.727273	14.61538	0.8	23.75
2022	9.52381	4.190476	19.13043	1.757576	1.181818	0.608696	1.555556	1.826087	15	0.88	23.86364
2023	9.665763	4.245709	19.58333	1.764706	1.176471	0.479167	1.210526	1.845	14.76	0.94	23.55319

Table 1: Ratio Calculations of Bakkavor Group (2019–2023)

Source: (Bakkavor Group plc, 2023)