

MBA-Masters of Business Administration



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1 Introduction

Tesco is the largest retailer in Great Britain. Tesco has become a market leader and include in the rating of world's world's top three retailers, with over 2,711 locations and 366,000 staff internationally. Tesco has a presence in 11 countries outside of the United Kingdom, including the Republic of Ireland, Hungary, the Czech Republic, Slovakia, Turkey, and Poland in Europe, and China, Japan, Malaysia, South Korea, and Thailand in Asia (.Tesco plc.com).

This essay aims to introduce the history of the chosen company, including information on its business model, market position, and key competitors. It discusses important measures that have taken place over the previous five years, such as shifts in leadership, legal challenges, profit warnings, and strategic shifts, and how these events have impacted the overall financial success of the organisation. It will also discuss the founding principles of the company, the primary products or services it offers, and the specific market niche it occupies.

Then, this report moves onto evaluate Tesco's financial performance using ratios calculation for the past five years. It is often required to compare the performance of multiple companies or the performance of a single company over the course of several years. The report uses both approaches. A evaluation of firms that are comparable to that company's "profitability, liquidity, and efficiency" from 2019 to 2023 be achieved using different analysis such as ratio analysis.

2 Brief overview of the Tesco's history

According to the Tesco website (Tesco plc.com), in 1919, Jack Cohen established a booth in London's East End where he offered residents overstock groceries.

Jack Cohen purchased land in north London to establish a new company office and store and it became the “first modern food storage” facility in Great Britain. Due to creative stock control strategies, customers enjoyed better discounts (Tesco plc.com). In the 1930s, Jack Cohen increased the size of his company by acquiring stores. Tesco expanded throughout London, its suburbs, and the counties around. Jack Cohen made a visit to USA in 1946 and reinvented the idea of “self-service”, which would revolutionize how British consumers would shop. (Tesco plc.com)

Tesco's merger with Booker Group is one of its milestones. The UK's most successful food firm will combine the two companies' retail and wholesale experience. They created "Every Little Helps" programme in 1993. The program added 1.3 million clients between 1993 and 1995 in its first three years. Tesco Clubcard gained five million customers in its first year. Tesco's market share surpassed that of Sainsbury's with the launch of Clubcard.

Tesco processed the first home-based internet purchase in 1984 and remains the UK's most popular online supermarket and one of the world's most popular. According to the figure 1 from statista.com, Tesco, Sainsbury's, and Asda, the UK's three largest grocers, continued to grow at similar rates over the 12-week period. Asda leads the pack with 8.8% year on year sales growth and a 14% market share, while Tesco and Sainsbury's sales increased by 8% and 8.7%, respectively, capturing 27% and 14.9% of the sector.

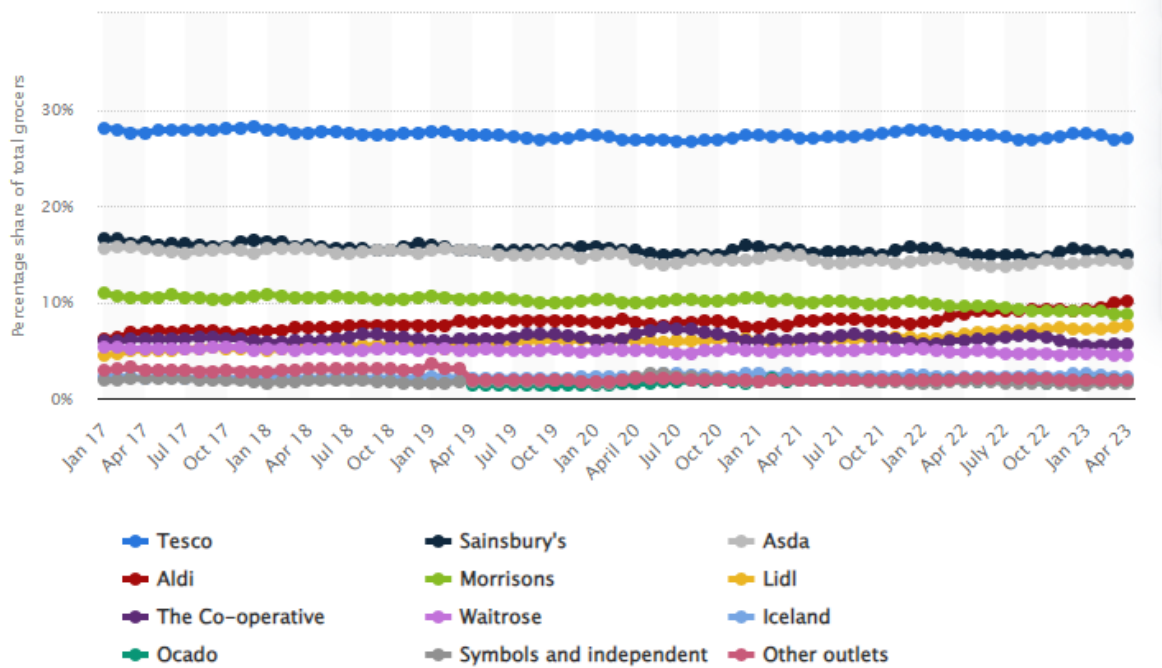


Figure 1: Market share: supermarket. Statista.com

Business model

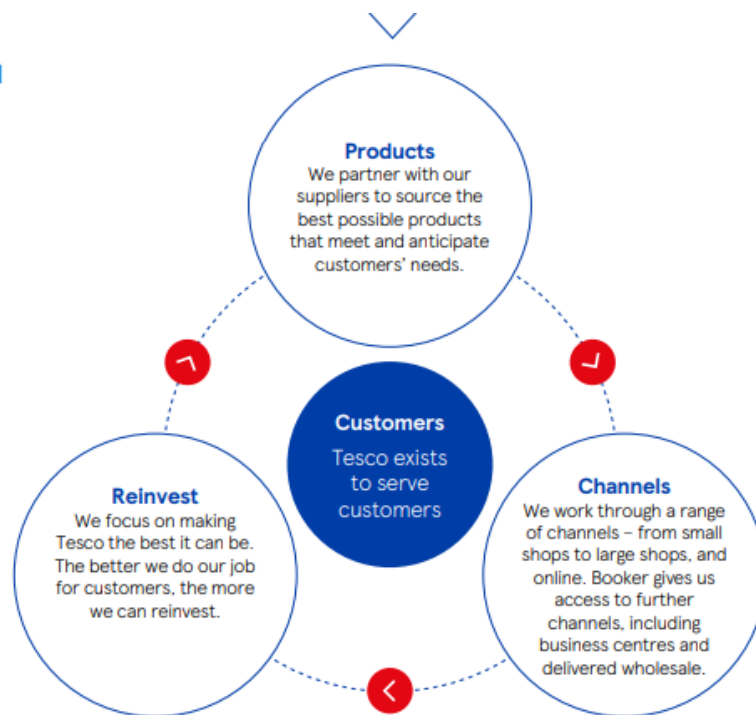


Figure 2: business model (Tesco plc.com)

Tesco is also in competition with other types of merchants, like general merchandise and convenience stores. As it was initially established, the UK company has developed its brand image via introducing organic product line extension and, most notably, through a series of strategic merge and the subsidiaries, it has expanded its business operations.

For the 2022/23, Tesco's earnings in the Great Britain and the Republic of Ireland had risen, result in the around 1,249 million (statista.com). Aldi and Lidl also pose a frightening threat to Tesco's growth in term of its market share and profits. The distance between them is rapidly shrinking, and they are being attacked by Aldi, along with other merchants including Sainsbury's and ASDA. In reaction to the threat that Aldi posed, Tesco introduced the "Aldi Price Match" promotions. Additionally, Morrisons, the rival, is putting a lot of pressure on the company. According to Tesco plc.com, they employ six main techniques. Value is created over time by a strong brand (Van Heerde, Gijsbrechts, and Pauwels, 2008).

The foundation of what our brand (a differentiated brand) stands for is Tesco's mission, which is to give customers an experience that is progressively better with each passing day. Tesco also made room for a few additional business plans. Examples include lowering operating costs, aiming to create £9 billion in total retail cash from operations over the course of three years, and generating long-term, sustainable profits across all its businesses, distribution networks, and product lines. According to the figure 3: Popular supermarket chain in Aldi, Lidl, and Tesco were the top three supermarkets chains in the UK in 2022, and Aldi won the first place recounting 81% of respondents for favourite food retailer survey. Lidl came in second with 78%.

Most popular supermarket chains in the United Kingdom (UK)

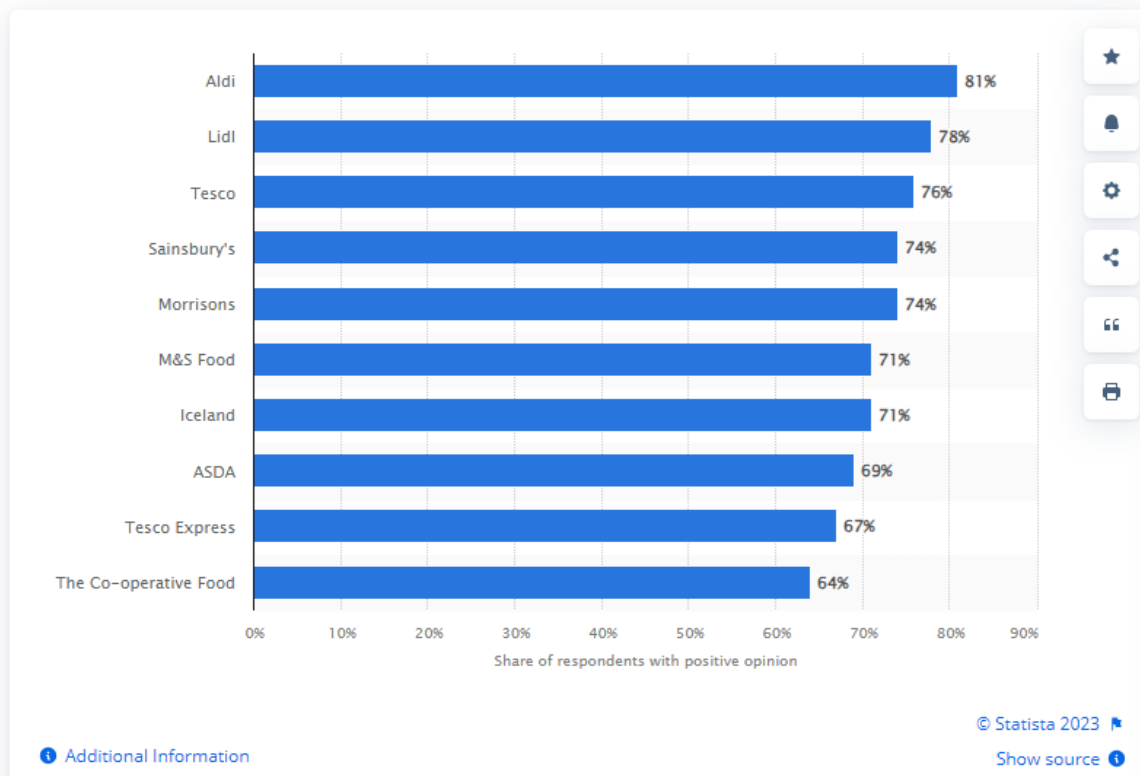


Figure 3: Statista.com

3 Financial Performance

This report first examines the general trend in the Tesco's performance and financial status. Financial statement is a set of four documents whose primary aim is to summarise the financial data of Tesco so that the firm can comply with the law by offering an honest and transparent perspective of the financial status and performance of the company. The primary objective of this set of documents is to summarise the financial information of a company (Gibson and Boyer, 2013). The documents are:

- Balance Sheet/Statement of Financial Position
- Income Statement
- Cash flow Statement
- Statement of Changes in equity

They serve the purpose of looking at the financial status of the company from four distinct aspects, with the goal of providing the reader with a comprehensive and well-rounded view of the firm's financial situation and performance. Financial ratios show corporate financial stability and help sustain an enterprise's competitive position by achieving stable development and eliminating financial hazards (Marsh,2012, Kliestik,2020).

3.1 Balance sheet

The fundamental idea behind a balance sheet is that it provides a picture of a company's assets minus its obligations, sometimes known as items that are of a capital nature rather than items that generate revenue. It is, in essence, an image that was taken of the entire company at twelve o'clock midnight on the date that the accounting period ended. The developing of this photograph is followed by the addition of all the "owns less owes," which results in the balance sheet (Brookson, 1998). Following the process of determining all assets and liabilities, these figures are subsequently recorded in the balance sheet in accordance with an accounting rule known as historic cost. In other words, everything is displayed according to its initial historic cost to the company (Hasanaj and Kuqi, 2019).

Table 1: Tesco's Balance sheet for the last five years (2018 to 2022: From London stoke exchange).

Balance sheet What's this?	24.02.18	23.02.19	29.02.20	27.02.21	26.02.22
	(£m)	(£m)	(£m)	(£m)	(£m)
Total Assets	44,862.00	49,047.00	52,302.00	45,778.00	49,351.00
Non-current assets	31,136.00	36,379.00	39,138.00	34,971.00	37,162.00
Current assets	13,726.00	12,668.00	13,164.00	10,807.00	12,189.00
Total liabilities	34,382.00	34,189.00	39,027.00	33,435.00	33,691.00
Non-current liabilities	15,166.00	13,533.00	21,122.00	17,456.00	17,568.00
Current liabilities	19,238.00	20,680.00	17,927.00	15,721.00	16,125.00
Net assets	10,480.00	14,858.00	13,275.00	12,343.00	15,660.00
Total Equity	10,458.00	14,834.00	13,253.00	12,325.00	15,644.00
Shareholders Funds	10,480.00	14,858.00	13,275.00	12,343.00	15,660.00
Non-controlling Interests	-22.00	-24.00	-22.00	-18.00	-16.00

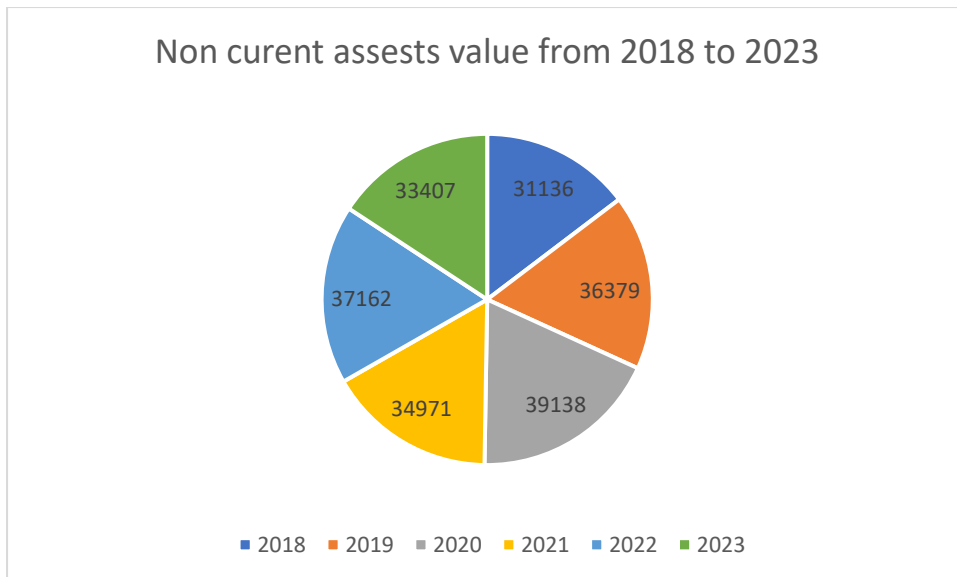


Figure 4: Noncurrent assets value (Prepared by authors)

Considering the general trends, Tesco's financial statements show that the company's total assets are higher in 2020 than in any other year, while its current liabilities are lower in 2019, resulting in lower hand cash and higher inventory than in 2020. However, it has nearly 2% difference in the "total assets lifting" up 2020 in comparison to other years. The sum of Tesco's assets has shrunk as well, falling from 2022 to 2023. The last five years show that this is not a steady trend, as there have been both increases and decreases. Tesco's total assets has also been declined from 2022 to 2023. This is not a stable trend as there are both ups and downs in last five years.

3.2 Income Statement

The balance sheet is a summary of a firm's fiscal position as of a specific date. On the other hand, the income statement provides a glimpse of the firm's fiscal performance for a certain time period. Additional categories, such as liabilities and assets, etc included to provide complete data. Income statement is also called as "profit and loss statement (or "P&L")", The reason for the name is that the information on the earnings, costs, and losses of a business over time are included in it. The firm's financial operations appeared in the profit and loss account. These include the selling as well as the numerous costs incurred throughout the processing stage (Das,2010, Hasanaj and Kuqi,2019).

Tesco Group Income Statement : Main statistics					
item	2019	2020	2021	2022	2023
Sales Revenue (£Millions)	63911	58091	57887	61344	65762
cost of sales cost of goods sold (£Millions)	59403	53680	54028	56650	61081
Gross Profit (£Millions)Loss	1946	2636	3555	5809	3661
operating profit /Loss	2649	2206	1547	2560	1525
free tax profit	1639	1297	799	2018	1000
after tax profit	1285	917	695	1523	753

Table 2: Prepared based on five years annual report.

This table 2 has created based on the financial figures from Tesco annual income statement. In the assess of a company's growth consistency over a period, on both revenue and net income growth basis, Tesco has made a good progress in recent years comparing to years from 2018 to 2020. As future progress projections are extremely imperative to investors, Tesco growth appears to be improving. Tesco Group sales revenue is higher for 2023 FY than the 2022. When considering operating profit (Figure 5), Operating profit measures a company's regular earnings. The income statement's operating profit removes one-time costs, interest, and taxes, which may distort the company's profit in any given year. A company's bottom line accounts for these items. Tesco's 2021/22 operating profit was 2560 million British pounds and 1525 in 22/23. This decreased from the prior financial year. This indicates that Tesco's sales are high but operating profit is less due to the few facts such as increasing cost inflation and investments in customer offers along with Aldi and Liddle price match for customer satisfaction and loyalty. Tesco's calculate debt for 2019 to 2023 FY be an average of 16.309 billion. Reviewing the Tesco's debt for the period of 5 years from 2019 to 2023, total debt at Tesco topped in February 2020 at 17.79 billion (Financial times, 2023).



Figure 5: Operating Profit for Tesco

4 RATIO ANALYSIS

4.1 Profitability Analysis

Table 3: Return on Capital Employed (ROCE) at Tesco

Fiscal Year	Earnings Before Interest and Taxes	Average Capital Employed	Return on capital employed: Operating Profit×100. Capital Employed
23/02/2019	£2.544 B	£56.916 B	4.5%
29/02/2020	£2.627 B	£41.829 B	6.3%
27/02/2021	£1.789 B	£21.651B	8.3%
26/02/2022	£2.87B	£38.465 B	7.5%
25/02/2023	£2.727 B	£41.612B	6.6%

Table 4: Return on Capital Employed (ROCE) at Sainsbury

Fiscal Year	EBIT	Average Capital Employed	Return on Capital Employed
2019-03-09	£1.004 B	£13.931 B	7.2%
2020-03-07	£1.014 B	£16.026 B	6.3%
2021-03-06	£729 M	£14.661 B	5.0%
2022-03-05	£1.058 B	£15.238 B	6.9%
2023-03-04	£1.024 B	£15.794 B	6.5%

To the comment on the Tesco's performance on profitability based on the provided Return on Capital Employed (ROCE) data, we can observe the following trends:

ROCE Variation: The ROCE has fluctuated over the five fiscal years, ranging from 4.5% in 2019 to 8.3% in 2021. These fluctuations indicate that the company's proficiency to make profit relative to its capital employed has been inconsistent.

Declining ROCE: The company's ROCE has generally been on a downward trend from 2019 to 2023. It decreased from 4.5% in 2019 to 6.6% in 2023. This declining trend may question about the company's efficiency in utilizing its capital to generate profits.

Peak ROCE in 2021: The highest ROCE was achieved in 2021, with a value of 8.3%. This might be a positive sign for the company, indicating a relatively efficient use of capital during that year.

Impact of 2020: In 2020, the company experienced a relatively higher ROCE of 6.3%, compared to the surrounding years. This is down to the various factors, such as Covid pandemic, cost-cutting measures, increased productivity, or changes in the business landscape during that period.

Comparison to Industry: To better assess the company's profitability performance, it is essential to compare its ROCE figures with industry peers. If the company's ROCE is below the industry average, it may indicate that it is not utilizing its capital as effectively as its competitors. According to the flinbox.com analysis, average ROCE OF companies in the sector is 6.3% and industry average is 7.3%. Thus, both Sainsbury and Tesco are performing behind the industry average.

Recommendation: Overall, the company's profitability performance, as measured by ROCE, shows fluctuations and a declining trend over the years. It is crucial to investigate the underlying reasons behind these changes and understand the company's strategies and operations during each fiscal year. Additionally, evaluating the company's performance in relation to industry benchmarks and conducting a deeper financial analysis will provide a more comprehensive picture of its profitability and efficiency in generating returns on the capital employed.

Table 5:Asset Turnover at Tesco

Fiscal Year	Total Revenue (Bn)	Total asserts (Bn)	Asset Turnover <u>Total Revenue</u> total asset
2019	83.421	66.426	1.3
2020	74.488	70.553	1.1
2021	80.634	68.714	1.2
2022	82.2	63.608	1.3
2023	78.542	57.019	1.4

Table 6: Asset Turnover at Sainsburys

Fiscal Year	Asset Turnover Total Revenue/ total asset
2019	1.27
2020	1.13
2021	1.93
2022	1.15
2023	1.19

Total Revenue Trend: The company's total revenue has fluctuated over the five-year period. There was a decline from £83.421 billion in 2019 to £74.488 billion in 2020, followed by a recovery in 2021 (£80.634 billion), a slight increase in 2022 (£82.2 billion), and a decrease again in 2023 (£78.542 billion). It can be due to the Covid pandemic.

Total Assets Trend: The total assets of the company have shown fluctuations as well. There was an increase from £66.426 billion in 2019 to £70.553 billion in 2020. However, starting from 2021, there has been a downward trend in total assets, reaching £57.019 billion in 2023.

Asset Turnover Trend: The asset turnover ratio measures how efficiently the company generates revenue from its assets. In this case, Tesco's the asset turnover has fluctuated between 1.1 and 1.4 times over the five years while Sainsburys fluctuating between 1.1 and 1.9. Generally, higher asset turnover indicates better efficiency in utilizing assets to generate revenue. In the given case, Sainsburys outperforming Tesco in this area of ratio(Patin, Rahman and Mustafa, 2020).

Table 7: Gross Profit Margin analysis at Tesco

Financial year	Gross profit (USD)	Revenue (USD)	Gross profit margin Gross profit x100
			Revenue
2019.02.23	5.191 B	83.458 B	6.2%
2020.02.29	4.923 B	74.488 B	6.6%
2021.02.27	5.019 B	80.634 B	6.2%
2022.02.26	5.679 B	82.266 B	6.9%
2023.02.25	5.051 B	78.541 B	6.4%

Table 8: Gross Profit margin at Sainsburys

Financial year	Gross profit margin Gross profit x100
	Revenue
2019.03.09	6.92
2020.03.07	6.95
2021.03.06	6.08
2022.03.05	7.9
2023.03.04	6.36

Gross Profit Fluctuations: The company's gross profit has shown some fluctuations over the five-year period, with varying values from year to year. In 2019 and 2021, the gross profit was relatively lower, while there was an increase in gross profit in 2020 and 2022. However, in 2023, the gross profit decreased in comparison to the previous year.

Revenue Variability: The company's revenue also experienced fluctuations over the five-year period. There was a decline in revenue from 2019 to 2020, followed by a recovery in 2021. However, in 2023, the revenue declined again compared to the

previous year. These fluctuations can be assumed mainly due to the Covid 19 pandemic.

Gross Profit Margin Consistency: Despite the fluctuations in gross profit and revenue, the company's gross profit margin has maintained reasonably stable over the years, hovering around the range of 6.2% to 6.9%. This indicates that the company has maintained a consistent proportion of gross profit relative to its revenue.

Overall, the company's performance appears to be affected by revenue fluctuations, which can be attributed to various factors such as changes in market demand, economic conditions, competition, or internal operational dynamics. The consistency in the gross profit margin suggests that the Tesco has been effective in managing its production costs relative to its revenue.

Prior to the pandemic, Sainsbury's retail profit margins in 2019–20 was 3.4% and 2.99%, respectively. Tesco just reported 3.8%, as opposed to the 5% it had set as its target. These figures far fall short of what the world's food and beverage producers manage(Darma, 2021).

Table 9: Tesco -Operating profit margin

Financial Year	Operating profit/loss (Millions in £)	Revenue (Millions in £)	Operating profit margin $\frac{\text{Operating profit}}{\text{Revenue}} \times 100$
2019	2,649	63,911	4.14%
2020	2,206	58,091	3.80%
2021	1,547	57,887	2.67%
2022	2,560	61,344	4.17%
2023	1,525	65,762	2.32%

Table 10: Sainsburys - Operating profit margin

Financial Year	Operating profit/loss (Millions in £)	Revenue (Millions in £)	Operating profit margin $\frac{\text{Operating profit}}{\text{Revenue}} \times 100$
2019	601	29,007.00	2.07
2020	650.00	28,993.00	2.24
2021	156.00	29,048.00	0.54
2022	1,156.00	29,895.00	3.87
2023	562.00	31,491.00	1.78

The “operating profit margin”, which represents the percentage of operating profit relative to revenue, has also fluctuated over the years. There was a decline in operating profit margin from 2019 to 2021, followed by an increase in 2022, and then a decrease again in 2023.

Company Performance Analysis:

Operating Profit Fluctuation: The company's operating profit has shown fluctuations, with periods of growth and decline over the five-year period. The decline in operating profit from 2019 to 2021 could be a concerning trend, indicating challenges in cost management or revenue generation during those years.

Revenue Variability: The company's revenue also experienced fluctuations, with periods of decline and growth. The increase in revenue from 2020 to 2023 suggests some recovery and growth in the business during those years.

Operating Profit Margin Changes: The operating profit margin has fluctuated significantly over the five years, indicating changes in the company's ability to generate profits relative to its revenue. The decline in operating profit margin from 2019 to 2021 and the subsequent increase in 2022 followed by a decrease in 2023 reflects the company's varying levels of efficiency in managing costs and generating profits.

Overall, the company's performance appears to be influenced by fluctuations in operating profit and revenue. Additionally, evaluating the company's performance relative to industry peers would provide valuable insights for a comprehensive evaluation.

4.2 Efficiency Ratios

Table 11: Tesco – Non- current assets turnover

Financial year	Revenue (£ in Millions)	Non-current assets (£ in Millions)	Non current assets turnover $\frac{\text{Revenue}}{\text{Non current asset}}$
2019	63,911.00	44,320.00	1.44
2020	58,091.00	39,254.00	1.48
2021	57,887.00	34,705.00	1.67
2022	61,344.00	37,162.00	1.65
2023	65,762.00	33,407.00	1.96

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Table 12: Sainsburys - Non current assets turnover

Financial year	Revenue (£ in Millions)	Non-current assets (£ in Millions)	Non current assets turnover $\frac{\text{Revenue}}{\text{Non current asset}}$
2019	29,993.00	20,453.00	1.46
2020	28,993.00	20,351.00	1.42
2021	29,048.00	18,089.00	1.60
2022	29,895.00	20,162.00	1.48
2023	31,491.00	18,257.00	1.72

To analyse Tesco's financial performance, we'll focus on two key metrics: inventory turnover and inventory days. Inventory turnover measures how efficiently a company manages its inventory, while inventory days indicate how long, on average, inventory stays in the company's possession before being sold (Taysayev, 2020).

Inventory Turnover:

Inventory Turnover = Cost of Sales / Average Inventory

For 2019:

$$\text{Inventory Turnover} = 78,863 / ((3,453 + 3,110) / 2) \approx 78,863 / 3,282 \approx 24.05$$

For 2020:

$$\text{Inventory Turnover} = 79,922 / ((3,110 + 2,681) / 2) \approx 79,922 / 2,895.5 \approx 27.59$$

For 2021:

$$\text{Inventory Turnover} = 69,883 / ((2,681 + 3,208) / 2) \approx 69,883 / 2,944.5 \approx 23.73$$

For 2022:

$$\text{Inventory Turnover} = 77,785 / ((3,208 + 3,047) / 2) \approx 77,785 / 3,127.5 \approx 24.86$$

For 2023:

$$\text{Inventory Turnover} = 75,397 / ((3,047 + 3,047) / 2) \approx 75,397 / 3,047 \approx 24.75$$

Inventory Days:

Inventory Days = (Inventory / Cost of Sales) x 365

For 2019:

$$\text{Inventory Days} = (3,453 / 78,863) \times 365 \approx 16.00 \text{ days}$$

For 2020:

Inventory Days = $(3,110 / 79,922) \times 365 \approx 14.26$ days

For 2021:

Inventory Days = $(2,681 / 69,883) \times 365 \approx 14.03$ days

For 2022:

Inventory Days = $(3,208 / 77,785) \times 365 \approx 15.06$ days

For 2023:

Inventory Days = $(3,047 / 75,397) \times 365 \approx 14.79$ days

Inventory Turnover:

The inventory turnover indicates the number of times Tesco sold its entire inventory during the year. A higher turnover is generally favourable, as it suggests efficient inventory management and faster sales. In this case, we see that the inventory turnover hovers around 24-28, indicating Tesco's inventory is turning over approximately 24 to 28 times a year. This suggests that Tesco has been maintaining a relatively efficient inventory turnover throughout the years.

Inventory Days:

Inventory days show how many days, on average, it takes for Tesco to trade its inventory. Lower inventory days are generally preferred as they imply faster inventory turnover and better liquidity. In this case, the inventory days have ranged from 14.00 to 16.00 days, indicating that Tesco takes around 14 to 16 days on average to sell its inventory. Based on the analysis, Tesco appears to have maintained a relatively efficient inventory turnover and inventory days over the past five years.

To analyse Tesco's performance in terms of non-current assets turnover, we'll calculate the non-current assets turnover ratio for each financial year. The "non-current assets turnover ratio" assesses how effectively the company utilizes its non-current assets (such as property, plant, and equipment) to produce revenue. A higher ratio signifies better utilization of "non-current assets".

Trend Analysis:

Over the five-year period, we observe a fluctuating trend in the non-current assets turnover ratio. The ratio has increased from 1.44 in 2019 to 1.96 in 2023. Generally, a rising trend indicates that Tesco is becoming more efficient in utilising its non-current assets to generate revenue.

Efficiency: The non-current assets turnover ratios are relatively low, ranging from 1.44 to 1.96. This suggests that Tesco generates less revenue per unit of non-current assets compared to its total revenue. The company might be holding significant non-current assets, and its business model may not be heavily reliant on these assets to generate revenue.

Comparison with Industry: To gain a deeper understanding of Tesco's performance, it's essential to compare its non-current assets turnover ratio with industry peers. If Tesco's ratio is higher than the industry average, it indicates that the company is using its non-current assets more efficiently than its competitors.

To compare the performance of Tesco and Sainsbury's based on their non-current assets turnover, we'll calculate the ratio for each company and analyze the results. The non-current assets turnover ratio measures how efficiently a company uses its non-current assets to produce profits.

Efficiency in Asset Utilization:

Both Tesco and Sainsbury's have similar non-current assets turnover ratios over the years, ranging from around 1.42 to 1.96 for Tesco and 1.42 to 1.72 for Sainsbury's. This suggests that both companies have been utilizing their non-current assets at a relatively comparable level in generating revenue.

Trend Analysis:

Tesco's non-current assets turnover ratio has seen some fluctuation over the years, with a slight increase from 1.44 in 2019 to 1.96 in 2023. Sainsbury's non-current assets turnover ratio has also experienced fluctuations, with a high of 1.72 in 2023.

Overall Analysis:

Based solely on the non-current assets turnover ratio, it appears that both Tesco and Sainsbury's are using their non-current assets reasonably efficiently. However, this ratio is only one aspect of performance analysis, and a comprehensive evaluation should also consider other financial and operational metrics, such as profitability, liquidity, and debt levels, as well as qualitative factors.

Comparing the performance of two companies requires a more comprehensive analysis, considering various financial and non-financial factors specific to each company, their competitive strategies, market conditions, and industry trends. It's essential to look beyond a single ratio and consider the broader context to make a meaningful comparison. Additionally, it's important to note that comparing companies in different industries may have inherent limitations due to varying business models and sector-specific dynamics.

4.3 Liquidity Ratios

Table 13: Tesco current Ratio

Financial year	Current assets (£ in Millions)	Current liabilities (£ in Millions)	Curent Ratio
			$\frac{\text{Curent assets}}{\text{Curent labilités}}$
2019	12,480.00	20,973.00	0.595
2020	13,608.00	18,656.00	0.729
2021	10,202.00	15,721.00	0.648
2022	11,821.00	16,125.00	0.733
2023	12,515.00	17,721.00	0.706

Table 14: Tesco – Acid test

Financial year	<u>Current Assets - Inventory</u> (\$ Billions)	Current Liabilities (\$ Billions)	ACID TEST/QUICK RATIO <u>Current Assets - Inventory</u> Current Liabilities
2019	16.96 B	25.57 B	0.66
2020	13.72 B	22.91 B	0.60
2021	13.76 B	22.16 B	0.62
2022	12.91 B	20.43 B	0.63
2023	12.40	21,53 B	0.58

Tesco's performance based on liquidity ratios,

we will consider two key ratios: the Current Ratio and the Acid-Test (Quick) Ratio. Liquidity ratios assess a company's ability to meet its short-term obligations and provide insights into its short-term financial health(Saleem and Rehman, 2011).

Current Ratio:

The “Current Ratio” assess the firm’ ability to pay its short-term liabilities using its current assets. A Current Ratio above 1 indicates that the company has enough current assets to cover its current liabilities.

Acid-Test (Quick) Ratio:

The Acid-Test Ratio is a more stringent liquidity ratio that excludes inventory from current assets. It focuses on the company's ability to pay its short-term liabilities using only its most liquid assets.

Acid-Test (Quick) Ratio = (Current Assets - Inventory) / Current Liabilities

Current Ratio Analysis:

The Current Ratio fluctuates between approximately 0.595 and 0.733 over the years. While the Current Ratio is generally below 1, indicating that Tesco may not have enough current assets to fully cover its current liabilities, it is essential to interpret this ratio in the context of the retail industry. Retail companies often have lower Current Ratios due to their operating model, where inventory is a significant portion of current assets.

Acid-Test Ratio Analysis:

The Acid-Test Ratio also shows a fluctuating trend, ranging from about 0.58 to 0.66. This ratio excludes inventory, focusing on the most liquid assets. Despite being below 1, similar to the Current Ratio, this trend is not unusual for a retail company.

Overall, Tesco's liquidity ratios indicate that the company may have relatively lower short-term liquidity, which is not uncommon in the retail industry. It is important to consider the nature of the business and the company's overall financial health when interpreting these ratios.

Table 15: Tesco - Cash Ratio

Financial Year	Cash	Current Liabilites	<u>Cash ratio</u> <u>Cash x 100</u> Current Liabilities
2019	2,916.00	43,466.00	6.70%
2020	4,137.00	39,778.00	10.40%
2021	2,510.00	33,453.00	7.50%
2022	2,345.00	33,707.00	6.95%
2023	2,465.00	33,902.00	7.27%

Tesco's performance based on the Cash Ratio; we'll consider the cash available relative to its current liabilities. The Cash Ratio measures the company's ability to pay off its current liabilities using only its cash and cash equivalents.

$$\text{Cash Ratio} = (\text{Cash} / \text{Current Liabilities}) \times 100$$

Let's calculate the Cash Ratio for each financial year:

Cash Ratio Analysis:

The Cash Ratio fluctuates over the years, ranging from approximately 6.70% to 10.40%. This ratio indicates the proportion of Tesco's current liabilities that can be covered by its available cash and cash equivalents.

Tesco's Cash Ratio is relatively low, implying that the company relies on other liquid assets besides cash to meet its short-term obligations. Retail companies like Tesco often maintain lower cash reserves due to the nature of their business, which involves significant inventory and operational expenses.

A higher Cash Ratio is generally preferred, as it indicates a company's strong ability to meet its short-term obligations with readily available cash. However, too high a Cash Ratio may also suggest that the company is not efficiently utilizing its cash for investments or growth opportunities.

Tesco's Cash Ratios, ranging from 6.70% to 10.40%, seem reasonable for a retail company operating in a competitive industry. It indicates that Tesco is managing its cash and short-term obligations reasonably well.

4.4 Gearing Ratios

In the example Tesco's debt to equity ratio for 2019 was 0.53. It has risen to 0.57 in 2020. The primary reason for it is a 5% increase in debt (Muradoglu., Bakke and Kvernes, 2005)

Table 16: Debt to equity – Tesco

Financial year	Total Debt	Total Common equity	Debt to equity Ratio Total debt/Equity
2019	23.035B	17.564B	131.2%
2020	22.811B	17.171B	132.9%
2021	21.828B	16.823B	120.8%
2022	20.595B	21.001B	98.1%
2023	18.008B	14,62B	123.2%

5 Part C: Investment appraisal methods

5.1 Net Present Value (NPV)

Gallo (2014:1) posits that "Net present value is the present value of the cash flows at the project's required rate of return compared to your initial investment." In real life, it's a method to figure out "return on investment" (ROI) for launching a business project or cost. In order to verify whether the investment decision is worthy to invest, the company need to a look at all the money which can be predicted to earn from the invested project and translating those earnings from the investment into today's currency. When deciding whether or not to move on with a project or whether or not to pursue a merger and acquisition strategy, NPV analysis is one of the simplest instruments available to Tesco (Lefley, 1996, Baum, 2021).

“Internal rate of return, payback method, and net present value” are often the three alternatives approachable when a company needs to compare alternative projects and decide which ones to invest.

Most financial experts use “net present value (NPV)”. Two reasons. NPV accounts for “time value of money” by translating “future cash flows into today's money”. Two, it allows management a clear figure to immediately compare an initial cash spend with the present return.. When considering how to work out net profit value, it look like the following formula.

$$\text{Net Present Value} = \sum \frac{\text{Year n Total Cash Flow}}{(1 + \text{Discount Rate})^n}$$

Where “n” is the year whose cash flow is being discounted.

Financial investments, especially those involving entire businesses, require extra concerns (Herbener and Rapp, 2016). Combining appraisal and valuation usually saves money on consumer goods. Acting guy buys consumer items for non-financial reasons like hunger. A person can immediately assess how a consumer good helps achieve such goals. Financial investments serve financial goals (Follert et al.2019). Finally, the NPV technique accounts for capital costs and future prediction risk. Ten-year cash flow projections are less predictable than next-year projections. Future cash flows have less impact on net present value than earlier, more predictable cash flows (The Motley Fool,2015). However, there are few disadvantages of this appraisal method.

Net Present Value may not cover hidden expenses and cannot compare large and small projects. Gaille (2020) claims that the Net Present Value approach cannot be used to compare different sized projects. Even though the £10,000 project has a better % return, the £1 million project has a far bigger NPV. Because each project's production doesn't compare well, this alternative is bad because funding is scarce.

5.2 Internal Rate of return (IRR)

Keynes and Boulding (1935, 1936a, b) invented the internal rate of return (IRR). Scholars and practitioners utilize this index to make decisions, and all business and management students learn it.

The IRR decision criterion advises accepting a project only if its “IRR is larger than the cost of capital” (typically the market rate) and grading contending projects using IRR: “the higher the IRR, the higher the rank”.

According to Cook (2022), the Internal rate of return can be considered as financial planner calculator which can be used to determine which initiatives or investments are investable and ranks them on a scale. Unfortunately, the IRR presents major conceptual and technological issues: (i) because of a real-valued IRR may not exist, comparison with the “cost of capital” become impossible; (ii) many IRRs may grow, making the comparison as mentioned above may be problematic; (iii) compatibility with the “Net Present Value (NPV)” is not definite, even if the unique IRR. In the past 80 years, the finance and management literature has extensively studied the IRR's problems and sought solutions. Kattan (2021) claims that investors and management should not ignore the IRR's flaws. IRR disadvantages: The initial investment amount, pound value, and holding periods of similar assets are ignored. It ignores negative cash flow reduction and positive cash flow reinvestment.

In his study, Arshad (2012) examined NPV's superiority over IRR. Since capital cost determines NPV and IRR rate governs IRR. Individual projects prefer IRR, while projects which mutually exclusive select NPV. The purpose of this study was to study the current system while reviewing authors' favourites and evaluate the gap to

conclude which is better. The hypothesis tested using quantitative longitudinal study. Author concludes that NPV was superior than IRR.

5.3 Payback Period

Payback period is the number of years to regain an investment. This establishes an “investment break-even time”. Because prolonged PBPs are not always not attractive for investors for some businesses, the PBP of a particular safety investment is one factor that could be used to decide whether to move forward with the safety project. Note that profitability does not account in PBP calculations and only considers gains during the set time frame. The notion also fails to account for opportunity costs or the time worth of money. Safety investment costs can be split by annual benefit outflows to arrive at PBP (Reniers, Talarico and Paltrinieri,2016, Dai,2022).

,The investment is more appealing if it's payback period is short. The reverse is also true: payback periods that are too long are often avoided. If the upfront cost of installing solar panels is £5,000 and monthly savings are £100, the payback period would be 4.2 years. Experts estimate that it may take a very lengthy period like 9–10 years for homeowner to recoup their initial investment in a new roof.

You can figure out the payback period by using the following formula:

$$\text{Payback Period} = \frac{\text{Cost of Investment}}{\text{Average Annual Cash Flow}}$$

6 Conclusion and Recommendation

Tesco is one of the largest retailers/supermarkets in UK and it further discussed the company's development history. The purpose of the report was to conduct a financial analysis for Tesco using its past five years annual reports. This is accomplished by compiling and analysing financial data. Various types of financial statements of Tesco

were scrutinised to accomplish the purpose of the report. Both corporate finance and investment finance provide environments in which financial analysis can be performed. Therefore, ratio analysis and inventory appraisal were conducted. Analysis was conducted in comparison with Sainsbury's.

In the analysis, some of the major findings were as follows.

Tesco has diversified its product by establishing the reputation for organic product line and offering best quality. They have differentiated their operation from Aldi and Lidl by the concept of offering everything from one roof such as clothing, bakery, halal, café, banking, etc.

Tesco is the market leader and continue to grow in a highly competitive environment. With regards to financial ratios calculations, Tesco has achieved profitability in recent years, and it may be the case for the coming years. However, this is not a stable trend as there are both ups and downs in last five years.

When comparing with its closest rival, the company has surpassed them in the area of return ratios. The Tesco's efficiency has been slightly increased as a consequences of better resource utilisation and cost cutting which has also improved the company's financial health. As an investor, Tesco could be an option for the reason that it guarantees a more stable and strong return than Sainsbury's.

The assessment has provided few recommendations in ratio calculation section. In addition to that, constant watch is very important along with constant engagement to analyse competitive rivalry. Even though, in the realization of Aldi and Lidl as the main competitors for Tesco and Tesco has responded strategically using price match war, in this over emphasis, they may disregard the threat from the competition from Morrison. Constant engagement with Porter's five analysis may avoid unexpected threats from external forces like this in order to look after its market position.

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