

Financial Management for the Hotel Industry.

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Summary table of “Rangemasters PLC”

Ratios	2019	2018	Difference	Performance (%)
ROCE	35.2	31.2	4	4
Asset turnover	1.8	1.7	0.1	5.9
Gross Profit %	26.8	26.81	-0.01	-0.01
Net operating profit %	19.2	18	1.2	6.5
Inventory turnover (days)	73.8	75.6	-1.8	-2.4
Non-current asset turnover	2.9	2.5	0.4	15.6
Current ratio	1.9	1.8	0.1	3.6
Acid test	1.2	1.1	0.1	9.8
Creditor days	87	83	3.5	4.2
Debtor days	60	61	-1	-1.8
Gearing-Debt to equity	41.5	61.3	-20	-32.4
Gearing-Debt to capital	29.3	38	-8.7	-22.9
Interest cover	12	8.2	3.8	46.3
Earnings per share (EPS)	63	51	12	23.5
Price earnings ratio (PER)	5.6	5.4	0.2	3
Dividends per share (DPS)	33	30	3	10
Dividends % pay-out	52381	58824	-6443	-11

ROCE is the ratio which shows the profit earned compared to the Capital Employed. The Capital Employed on its own shows if the company uses its capital reasonably to make profit. In order for ROCE to be calculated the Operating Profit is multiplied by 100 and after that divided by the Capital Employed.

Profitability	2019	2018	Difference	Performance (%)
ROCE	35.2	31.2	4	4

-The value of ROCE for 2019 is 35.2% and for 2018 is 31.2% which indicates an improvement by 4% in just one year. This is a good progress which can be made even better if all weak spots are listed and improved after that.

After going through the top part of ROCE it can be seen that there is an increase in the gross profit (2018 – 75000; 2019 – 96000) despite the increase in the cost of sales (2018 – 175000; 2019 – 204000). This is caused by the improved sales revenue (2018 – 250000; 2019 – 300000) compared to the cost of sales.

-Asset Turnover- this is the ratio that indicates the revenue which is earned per £1 of capital employed.

Profitability	2019	2018	Difference	Performance (%)
Asset turnover	1.8	1.7	0.1	5.9

To find the asset turnover the Turnover (Revenue) is divided by the Capital Employed.

In this case, the Asset turnover has increased by 0.1pence per £1 of capital employed making the value for 2019 1.8 pence per £1 of capital employed compared to 2018 (1.7). This then indicates that the company has done pretty well throughout this time.

- **Gross Profit** indicates the profit which is made for each £1 of sales.

Profitability	2019	2018	Difference	Performance (%)
Gross profit	26.8	26.81	-0.01	-0.01

The gross profit ratio is an important margin for a company which should be monitored carefully. Even though this company's gross profit has pretty much stayed the same and only dropped by a - 0.01% from 2018 to 2019 that doesn't mean that this is good for the company. The drop is very small, but they should monitor this margin carefully and improved the weak areas.

Net operating profit – this is a margin which shows the profit earned by the company's operations which is linked to the revenue made.

Profitability	2019	2018	Difference	Performance (%)
Net operating profit	19.2	18	1.2	6.5

The difference between 2018's and 2019's Net operating profit is very clear (1.2%). This indicated that the company is making profit from all of its sales which therefore means that this is good progress for the company's functioning.

Efficiency

- **Inventory turnover** – this indicated how long it takes for the company to turn its stock into sales.

Efficiency	2019	2018	Difference	Performance (%)
Inventory turnover (days)	73.8	75.6	-1.8	-2.4

Even though the difference in the values is a negative number that actually means good for the company because it needed less days to

turn stocks into sales. What this means is that in 2018 they averaged 75.6 days which then decreased to 73.8 days in 2019. This difference of -1.8 days means that the company is making good progress and it is functioning efficiently.

- **Non-current asset turnover** – this shows how much money is earned per £1 of non-current asset.

Efficiency	2019	2018	Difference	Performance (%)
Non-current asset	2.9	2.5	0.4	15.6

The non-current asset has gone up in 2019 compared to 2018 making the company's performance go up by 15.6%. This is a very good sign for the company as it shows progress and improvement and although the difference is not a lot (0.4 pence per £1 of non-current asset) it can definitely improve even more in the future.

Liquidity

- **Current ratio** – this margin indicated how good the company can manage cash flow and If they have enough to pay obligations etc.

Liquidity	2019	2018	Difference	Performance_ (%)
Current ratio	1.9	1.8	0.1	3.6

The values for 2018 and 2019 are not far apart because there are only 0.1 pence increase. However, that small increase is still a positive sign for the company and its performance.

- **Acid test** – this is very similar to the current ratio with the only different that there is no inventory. It also monitors the cash availability of the company however inventory is not counted as it might take a little bit longer to turn into an asset.

Liquidity	2019	2018	Difference	Performance (%)
Acid test	1.2	1.1	0.1	9.8

Again, not a huge difference between the 2018 value (1.1pence) and 2019 (1.2pence) however there is a positive 9.8% improvement compared to 2018 which shows that this company is able to pay all of its obligations.

- **Creditor days** – this represents the time it takes for the company to payback any outstanding balance to its creditors.

Liquidity	2019	2018	Difference	Performance (%)
Creditor days	87	83	3.5	4.2

Compared to 2018, in 2019 the company has used money from their creditor for a little bit longer than the year before that (2018 – 83 days; 2019 – 87 days) but this is not a bad point because it means that they are taking full advantage of the money provided by

creditors etc and are still improving their performance and paying everything back.

- **Debtors days** – this is the amount of time the company has to wait before it gets paid back the money owed by different individuals/businesses. The values in the table below represent an average.

Liquidity	2019	2018	Difference	Performance (%)
Debtors days	60	61	-1	-1.8

Clearly this is a really small difference in values (-1 days) which means that the company has to wait an average of 60 days in 2019 in order to get paid back whereas in 2018 it was 61 days. Looking at it short term it isn't making much of a difference but looking at it long term it will be a good margin for the company as if the days keep decreasing that would mean that the company will be able to get back most of its money in a shorter period of time which improves performance and efficiency for sure.

Capital Structure

- **Gearing** – this represent the condition of the company or in other words said how healthy it is and it can recognise the difference between debt and capital

Capital Structure	2019	2018	Difference	Performance (%)
Gearing – (Debt to capital)	29.3	38	-8.7	-22.9

There is a significant change in the % Gearing from 2018 to 2019 (38% - 2018; 29.3% - 2019) which shows that the company has not been dependent on money borrowing from banks etc. This is a good sign for the company because by borrowing less and less money from banks it means that the capital or the amount of money the company has is going up which also means that they are performing good and are making a progress.

- **Interest cover** – this shows how much of the profits generated by the company are covered by the interest paid. It also shows that the higher the interest cover is the greater the ability of company to achieve their interest obligations is.

Capital structure	2019	2018	Difference	Performance (%)
Interest cover	12	8.2	3.8x	46.3

From the table above it is clear that the Interest cover has risen up in 2019 compared to 2018 making the company more capable of meeting its interest obligations. The performance of the company has grown by 46.3%.

Investment

- **Earnings per share (EPS)** – This is the profit on standard activities and operations (after all charges and tax) which has been generated for each share.

Investment	2019	2018	Difference	Performance (%)
Earnings per share (EPS)	63	51	12	23.5

The amount of Earning per Share has risen up by 12 pence per share in 2019 compared to 2018. This means that the performance of the company is improving because the earning belonging to the holder of one single share are going up as well. This is a good sign for the company and in long term it might get even better.

- **Price Earnings Ratio (P/E)** – this ratio shows the relationship between the earning per share and the price on the market for an ordinary share. The higher the ratio is the better future the company will have.

Investment	2019	2018	Difference	Performance (%)
Price Earnings Ratio (P/E)	5.6	5.4	0.2	3

The company's ratio has gone up by 0.2 which means that this value will keep going up and improving in the next 5-10 years. What this means is that the market says good and progressive future for the company.

- **Dividends per share (DPS)** – this ratio shows the number of dividends paid to shareholders of 1 ordinary share.

Investment	2019	2018	Difference	Performance (%)
Dividends per share (DPS)	33	30	3	10

In 2019 the DPS has risen by 3 pence compared to 2018. This means that shareholders have been paid 3 pence more per ordinary share.

- **Dividends pay-out** – this shows the number of dividends paid to shareholders compared to the earnings.

Investment	2019	2018	Difference	Performance (%)
Dividends pay-out	52381	58824	-6443	-11

As it can be seen in the table above, the difference between 2018 and 2019 is quite a lot (58824 – 2018; 52381 – 2019) which has reduced the performance by 11%.

Overall the company seems to be doing very well. Almost all of the ratios in each category are increasing and the performance of the company is improving as well. There are some weak points which will need to be improved in the future in order for the company to do even better than it did in 2018 and 2019.