

Analysis of Financial Statements

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The hospitality industry comprises tertiary fields such as hotels, cruise lines, and event management such as wedding planning, birthdays, and parties. Activities such as theme parks and lodging are included in the hospitality industry. To evaluate the performance of a particular entity, the analysis of relevant financial ratios is essential. The company's financial statements include the Statement of Profit and Loss and its Balance Sheet. This information on these statements is utilized to obtain meaningful information about the entity's economic performance by computing financial ratios.

This analysis aims to assess the financial performance of JURYS INN, a hospitality company that comprises a portfolio of hotels in the United Kingdom and Northern Ireland. The research will evaluate the performance against Profitability, Liquidity, Capital Structure, and Operational Efficiency parameters. Since the hospitality sector consists of many different sub-sectors, it is difficult to compare current results with industry peers and competitors or the sector average. Therefore we will base our analysis on the JURYS INN previous year's performance for an apples-to-apples comparison.

Ratio Analysis

Ratio analysis offers a better perspective for financial analysis than measuring absolute values. It provided meaningful insights regarding the financial health of the entity through scrutinizing previous and current financial statements. For example, a company may grow, but the net margin deteriorates. On the other hand, a company may indicate a high profit but negative

cash flows and poor liquidity. For this and many other reasons, the financial ratios must be viewed in conjunction and analyzed on qualitative grounds and pure quantitative analysis. The report will present and interpret critical financial metrics.

Profitability Ratios

Profitability ratios are a financial metric used to assess the profit generation ability of the entity. Earnings are relative to the entity's revenue, costs, equity, and total capital. Profitability ratios are expressed as percentages, and higher scores are desirable. The ratios will be compared to the previous year's ratios to provide meaningful insights. The following exhibit shows the profitability ratios of JURYS INN.

NAME OF RATIO	Profitability Ratios		Change
	2019	2020	
<i>Return on Equity</i>	66%	66.50%	0.50%
<i>Net Profit</i>	72.87%	67.88%	-4.99%
<i>Return on Assets</i>	53%	51.62%	-1%
<i>Gross Profit</i>	91.81%	85.83%	-5.98%

Return on Equity:

Return on Equity (ROE) is a crucial metric for equity investors to determine the percentage return they realize on their investments. This ratio results from dividing the Net profit by the shareholder's equity. It is important to emphasize that managers are fiduciary to the company's shareholders, who will judge them for how much return they provide to the equity investor. Our company's ROE has improved slightly. This is explained by a minor increase in the absolute value of net profit and a slight decrease in the shareholder's equity, which contribute towards this marginal improvement.

Return on equity should be positive, which is the case. However, improvement is negligible despite lower shareholders equity in the denominator. This decline indicates poor operational performance compared to the previous year, and a decrease in net profit margins further strengthens our notion.

Net Profit:

Net profit is the first ratio an analyst looks to investigate. We calculate the net profit margin by dividing the net income by revenue and express it as a percentage. The net profit margin accounts for the company's ability to generate sustainable profit after accounting for all the organization's costs. It is one of the most important indicators of its financial health, and it also provides us with an idea of whether the company is running high overhead costs. It is also essential to forecast the company's future performance.

JURYS INN has reported an eroded net profit margin compared to the previous year. The absolute change of negative five percent is a worrying sign despite sales growth of Nine percent. It can be due to inflating material costs or due to high overhead. The overheads appear reasonable with sales, but the Cost of Goods Sold has almost doubled. Higher direct material and labor seem to be the reason for a decrease in net profit, and a decline in gross profit also solidifies this conviction.

Gross Profit:

Gross profit is how much money a company makes after accounting for the direct costs incurred to produce merchandise or provide services. By dividing the gross profit by the revenue, we can obtain the gross profit as a percentage or margin. A higher gross margin enables the company to retain higher capital to cover its operational costs.

Our company's Gross margin has improved in absolute terms, but the margin has significantly declined relative to previous. Revenue growth was just nine percent, complemented by a Ninety percent increase in the Cost of Goods sold. The extremely disproportional increase should be investigated. Such a high cost may be due to obsolete inventory or the end of fixed-rate contracts with the supplier. This information is available in the notes to financial statements.

Return on Assets:

A company with a greater magnitude of assets can generate higher returns by utilizing economies of scale. Return on Assets is simply the net profit divided by the total assets of the company, expressed as a percentage. Our company has shown a slight dip in the ROA, explained by deteriorating profit margins and increased liabilities.

Liquidity Ratios

The hospitality Industry has extensive working capital requirements and numerous current liabilities such as salaries, wages, and other current liabilities which it must meet. The liquidity ratios examine its ability to meet its short-term financial obligation and working capital need. This makes liquidity ratios such as current and quick ratios integral to our JURYS INN research. Ideally, a company should have liquidity ratios more significant than one, which would mean the company has more liquid assets than it needs to meet its short-term obligations. The following exhibit shows the liquidity ratios of JURYS INN.

<i>NAME OF RATIO</i>	Liquidity Ratios		Change
	2019	2020	
<i>Current Ratio</i>	2.28	2.00	<i>(0.28)</i>
<i>Quick Ratio</i>	1.20	1.12	<i>(0.08)</i>

Current Ratio:

In addition to the need for high working capital and many short-term liabilities, the hospitality industry requires even greater liquidity due to the industry's cyclical nature. Cyclical industries experience exponential growth during economic booms and steep declines during economic downturns, increasing the need for liquidity at all times. The current ratio measures the company's ability to meet its short-term obligations by utilizing its short-term assets. Short-term assets include cash, cash equivalents, inventory, receivable, and other short-term investments, and it does not include fixed assets like machinery and property. Our company's Current ratio has declined, but it is still encouraging on an absolute basis. This means the company possesses two current assets to meet its current liabilities. JURYS INN has done well to maintain this ratio close to two, but it should ensure it doesn't decline in the coming years.

Quick Ratio (acid-test):

The quick ratio evaluates its ability to meet its obligations by utilizing only the most liquid assets. This means any inventory or prepaid expenses would be excluded from the numerator of the current ratio while the denominator remains the same. JURYS INN has shown promising results in this aspect despite a marginal decrease in the ratio. It is imposing that the quick ratio above one is achieved, excluding inventory altogether. The company is poised nicely in liquidity, but it should ensure that the proportions don't erode continually.

Financial Leverage Ratios

The capital of a company consists of debt and equity, and financial leverage ratios analyze the composition of the company's money. Being aware of the debt a company holds, the analyst must assess its ability to pay off its obligations. Debt consists of long-term bank loans, bonds, and other long-term obligations such as a financial lease. Leverage ratios are also used to analyze the financial costs of a company and how capable a company is of meeting its interest

obligations. Understanding these ratios helps the analyst evaluate the financial solvency of the company.

The hospitality industry heavily relies on debt capital to finance its long-term assets such as property, building, fittings, and furniture. Hotels also maintain a fleet of vehicles which are often funded via debt. These long-term assets lie at the core of the hospitality business, making long-term debt pivotal for its smooth functioning. For the hospitality industry, ideally, low debt ratios are desirable. A lower debt ratio vouches for the company's solvency as long-term assets surpass long-term liabilities. The following exhibit shows the Leverage ratios of JURYS INN.

NAME OF RATIO	Liquidity Ratios		Change
	2019	2020	
Debt Ratio	0.20	0.22	0.02
Debt to Equity Ratio	0.25	0.29	0.04
Interest Coverage	53.00	61.00	8.00

Debt Ratio:

The debt ratio is essential and meaningful as it directly measures debt as a component of its entire capital structure. In this context, debt comprises all short-term and long-term obligations of the company. It should be noted that debt is not detrimental to the business, and in fact cost of debt is usually cheaper than the cost of equity. Under many tax regimes, the interest paid on debt is a tax-deductible expense, reducing the company's tax liability.

By no means is debt a bad thing, but too much reliance on debt can result in detrimental results for the company. This is because the cost of debt increases significantly after a certain threshold. JURYS INN has reported a minor increase in its debt ratio. However, the long-term liabilities have decreased. This is explained by a sharp rise in current liabilities, mainly bank

overdraft. It appears to be a wise decision since the company still has a positive current ratio, so the short-term overdraft has not dented its liquidity by much.

It is pleasing to notice a decrease in interest costs by two million. The logic above is the essence of financial ratio analysis. Even though the ratio has worsened, the decision still turned out to be suitable for the company, increasing its total wealth. We cannot form an opinion by looking at just one ratio without examining the qualitative and financial motives behind the ratio's decisions.

Debt to Equity Ratio:

D/E ratio is the most commonly used leverage ratio. The ratio is obtained by dividing the total liabilities by the total shareholder's equity. As a rule of thumb, the debt to equity ratio above two is high, although the standard varies by the nature of the industry. It is pleasing to see that JURYS INN's D/E ratio is not even one, although it has increased slightly. The company can consider aggressive growth options by taking out more debt as it possesses enough equity to meet its obligations.

Interest Coverage Ratio:

We can calculate the interest coverage ratio by dividing income before interest by the financing cost. The interest cover ratio shows the company's ability to service its debt. A ratio above three is desirable, and it's pleasing to see that our company is extremely capable of meeting its financial costs. The interest cover ratio did not increase in absolute terms but also improved relative to the previous year. The ratio also indicates that our company should opt for debt financing for its future growth.

Importance of Ratio Analysis in the Hotel Management Industry

Ratio analysis offers a meaningful comparison for measuring the hotel's performance and management, and the study can highlight particular areas for improvement and what the administration is doing right. Since the hotel management industry involves many tangible assets, specific sets of ratios can be compared to analyze the hotel's performance. Instead of viewing financial and operational results in absolute values, ratios analysis expresses them relative to another factor. Suppose the hotel wants to improve a particular aspect, such as increasing the net profit margin. In that case, the hotel can use other techniques such as regression analysis to discover which variable has the most significant impact on net profit.

The analysis offers infinite opportunities when combined with statistical tools such as time series analysis to generate trend lines, which can help forecast the future performance of the hotels. This can also predict any expected downturns or stress situations, allowing the hotel to stay well prepared for contingencies and emergencies. Current and potential investors can make investment decisions based on these ratios, using a ratio score sheet. Awareness of such factors will help JURYS INN secure funding for the future and keep existing investors satisfied.

Limitations of Ratio Analysis

The general Limitation of ratio analysis includes the use of historical data. Therefore we are utilizing past data as a predictor for the future. There is an inherent representative bias with ratio analysis as the past may not always be a reliable predictor of the future. Specifically to the hotel management industry, only a limited number of ratios are helpful due to the nature of the business being a service. Financial Ratios are derived from the financial statements information, and these financial statements are often subject to accounting policies. Moreover, these policies evolve with time and vary with jurisdictions, thus reducing the comparability between cross-sectional or time-series data.

The seasonal/cyclical nature of the hotel industry means it's imperative for the analyst to adjust the analysis to account for seasonality. A quarterly comparison may be more suitable for a business like JURYS INN. The financial statements can also be tailored to enhance specific financial ratios, including artificial sales inflation or recognizing an asset when it should be expensed.

Recommendation

Ratio analysis has shown promising results related to the hotel's performance. However, this should not be the only criteria for performance measurement. The research should also employ statistical tools risk management techniques. It is also vital to analyze and reflect on qualitative and ethical issues and their implications on our opinion about its performance. Critical information can be accessed in the notes to financial statements and board meeting minutes to assess the working environment and management's ability. Customer reviews and positive and negative feedback retention can also be utilized using big data analytics. All these techniques can provide comprehensive insight into the company and its future endeavors along with financial ratios analysis.

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