

FINANCIAL MANAGEMENT ASSIGNMENT

NEXT Plc

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According to the website of the Next Plc 2020: In 1981 J. Hepworth buys the chain of Kendall's shops to develop a womenswear stores called NEXT.

The first NEXT womenswear store opens on 12th February 1982 and another 70 NEXT stores around the UK opened by the end of July same year. Following years, the brand expanded in offering lines for Next for Men, home interiors, children's wear.

Next develops and implements its brand strategy of "One Brand; Two Ways of Shopping", across both retail and home shopping. In 1999, Next plc launched online shopping and this immediately reflected a change in NEXT's business strategy to "One Brand; Three ways of shopping". Next opened its 546th store and is present on the market in 70 countries around the world.

In the last 4 years there have not been many changes in the leadership of Next plc but in 2018 Next underwent two important personal and structural changes to the Board during the year. The company's CEO resigned after 23 years of service and his deputy was appointed to the position of the Board as Group Merchandise and Operations Director. Another change was the retirement of the non-executive director and Chairman of the Remuneration Committee, replaced by a new nonexecutive director to the Board.

Until January 2019, Next tested their new structural program by transferring their sales of goods from their stores to online commerce. The results are Earnings Per Share for the Group increased, full price sales increased and as a result of which there is an opportunity to return money to shareholders. Next has continued to invest in the business in stores, warehousing and systems. Net debt increased due to the online business venture.

Marks & Spencer plc can be consider as a main competitor of Next plc. Both brands offer lines for women. men, children, for home, flowers and wine, shoes, beauty. An additional line of M&S is the supply of food. On the other hand, through its website Next delivered Top Brands by Next, paying more attention to its strategies to e-maktet. Next is trying to attract more customers not only in their stores but also from their website, that is why they offer e-vouchers, gift cards and also gift experiences where the client can choose a beautiful moment for himself or as a gift by spending a day in an interesting place. We can talk about similarities between the two brands, but the target group is also different. At Next it is between 0-50 and compared to the collections offered there are many options on the market for this type of clothing, while Marks & Spencer have a higher age limit of 0-70+ years, relying on loyal and regular customers.

A critical review of the company's financial performances

Financial statements are accounting reports issued periodically to present past performance and a snapshot of the firm's assets and the financing of those assets. "Accounting is concerned with collecting, analysing and communicating financial information" (Atrill, P., McLaney, E., 2008; p.3) about a corporation and its transmission to the investors, financial analysts, managers, and other interested parties such as creditors rely on financial statements. "Finance like accounting, exist to help decision makers. It is concerned with ways in which funds for a business are raised and invested" (Atrill, P., McLaney, E., 2008; p.3). For preparation of financial statements there are rules and associations that control the rights of information such as generally accepted accounting principles together with the International financial reporting standards, International Accounting Standards Board. The balance sheet presents firm's financial position at a given point in time listing firm's assets and liabilities. "It is important to recognise that generating wealth for the owners is not the same as seeking to maximise the current year's profit. Wealth creation is a longer-term concept, which relates not only to this year's profit but to that of future years as well" (Atrill, P., McLaney, E., 2008; p.19). "The British buy more clothes than their neighbours and five times as many items as they did in the 1980s. Globalisation means things can be produced in far-off lands at low cost, meaning more choice and lower prices" (Dharshini, D., 2019). The relationship between the environmental price of goods sold and business is extremely high. It is on this occasion that "In June, MPs on the House of Commons Environmental Audit Committee (EAC) put forward 18 recommendations aimed at forcing the fashion industry to reform environmental and labour practices in its supply chain" (Harrabin, R., 2019). Two of them are "Clothing makers to pay 1p per item to fund recycling schemes and Mandatory environmental targets for fashion retailers with a turnover above £ 36m" (Harrabin, R., 2019).

Next Plc has been focusing on the development of its internet channels for the last 5 years, which is quite difficult considering the constantly growing daily online trade. The only thing that is certain is that people wear clothes and keep their spirits by applying the current fashion trends. Opening the brand's stores around the world also leads to dividends and risks. That is why the focus is on the clothing brand.

Financial analysis for the last 5 years of the Next Brand based on the company's annual financial reports. The source for the analysis is from the income statements and balance sheets of Next plc on which the annual report is published at the end of January of the following year.

"Financial ratio provide a quick and relatively simple means of assessing the financial health of a business" (Atrill, P., McLaney, E., 2008; p.182)

Current Ratio

2019	2018	2017	2016	2015
2.06	1.60	1.96	2.29	1.40

The current ratio, which reflects the liquidity, measures the company's ability to pay short-term liabilities due for one year. The trend for Next Plc is erratic in its development. Starting from 1.40 in 2015, perhaps for the accumulated debts of the company, starting the development of new channels of distribution of goods or new markets until the jump to 2.29 in 2016, which shows faster turnover and increased ability to repay debts. There is no fixed trend as figures go up and down during the period.

Quick Ratio

2019	2018	2017	2016	2015
1.50	1.19	1.43	1.67	0.99

The Quick ratio shows the company's ability to quickly convert its assets into money. Starting at 0.99 in 2015, which indicates the accumulation of debt, but the trend is generally going up, which indicates good liquidity. In 2018 and 2019 the current assets increase, and they start again investing in their shops inventory.

Cash Ratio

2019	2018	2017	2016	2015
0.09	0.13	0.06	0.07	0.06

This indicator shows the company's availability for fast money and its ability to pay short-term debts. Next's low levels on one hand indicate that the company is exposed to financial risk but on the other hand the reason could be the company's strategy to expand the brand in new markets or market developing and the related need for financing these activities.

Debt-Equity-Ratio

2019	2018	2017	2016	2015
2.80	3.50	2.25	1.86	3.07

This ratio presents the total debt to total capital. Total debt is a part of liabilities but not all liabilities are debt. At Next plc the levels are relatively high, but here need also to take into account the industry in which the company is. Clothing manufacturers use more debt to finance their production (Retail Apparel Industry Financial Strength Information, 2020).

Debt-to-Capital-Ratio

2019	2018	2017	2016	2015
0.74	0.78	0.69	0.65	0.75

The debt-to-capital ratio calculates the fraction of the firm financed by debt. At this level Next are relatively the same and unchanged over this period of time.

Gross Margin

2019	2018	2017	2016	2015
0.38	0.37	0.33	0.34	0.35

The income statement presents different way of earning measurement or how much the company earn from each dollar of sales after paying for the item sales. Gross Margin is pretty much the same for the Next in this period and the gross profit and sales slightly increase. Gross margin shows whether sales of the company can cover the costs.

Operating Margin

2019	2018	2017	2016	2015
0.20	0.20	0.19	0.20	0.21

Operating margin shows how much a company earns before interest and taxes from each dollar of sales. In this unit the indicators of Next plc are the same and it can be said that the profits from their sales are constant before tax and interest.

Net Profit Margin

2019	2018	2017	2016	2015
0.14	0.14	0.15	0.16	0.16

The fraction of each dollar in revenues of the company that is available to equity holders after interest and taxes. A low net profit margin means Inefficient management and high costs. For Next Plc in 2018 and 2019 there is a decrease in net profit margin. During this period, two long-term top managers of the Board retired from their positions (Next Plc, 2020).

Asset Turnover

2019	2018	2017	2016	2015
1.16	1.11	1.58	1.70	1.79

A first broad measure of efficiency is asset turnover. And shows how a company can use its assets to to improve sales.

Fixed Asset Turnover

2019	2018	2017	2016	2015
7.37	7.38	7.26	7.08	7.79

This ratio divides sales by fixed assets as in fixed assets are included property, plant and equipment. At Next Plc we see high sales and a low and relatively constant fixed asset.

Return on Equity

2019	2018	2017	2016	2015
1.38	1.64	1.23	1.24	2.14

Return on equity is calculated by dividing net income by shareholders' equity. Next started this period with good results in 2015 followed by a decline, apparently financial stocks decreased, while in 2018 and 2019 there is another increase in book value of equity and net income.

Return on Assets

2019	2018	2017	2016	2015
0.17	0.16	0.23	0.26	0.29

Return on assets show how the firm's return on investment by comparing its income to its assets. In this ratio Next Plc has a continuous increase during this period of 5 years of the total assets and net income undergoes slight changes.

At Next Plc there are many policies and strategies for remuneration, development, retirement, planning and more. Next Plc encourages its employees to invest in company shares, retention policies and attracting highly qualified employees. Creation of incentive programs of the management for achieving high results in the return of the shareholders. Staff bonuses are at a much lower level than for directors.

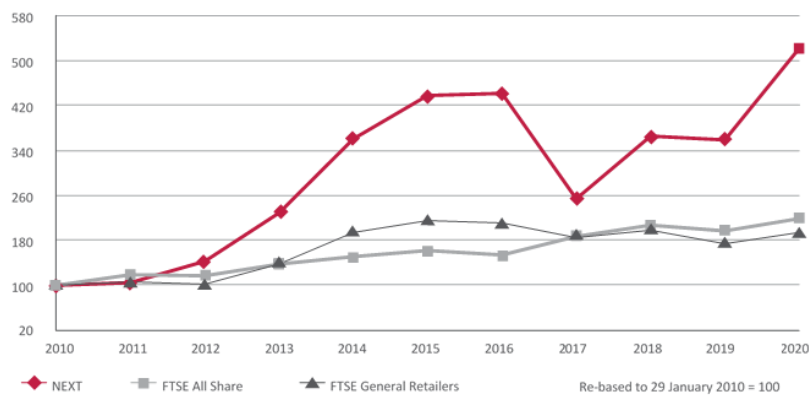


Figure 1 NEXT plc performance chart 2010 to 2020 Total Shareholder Return (Next Annual report, 2020)

The company has purchased and implemented a new IT system to calculate IFRS 16 numbers (Annual report, 2020), which generates the cost of purchase, application and implementation of the product. The company maintains and improves the IT systems and cyber security necessary for online commerce to store and classify customer and company data to reduce risk.

Next Plc makes updates on the storage and distribution of its products. The Group Balance Sheet shows a net inventory valuation of £527.6m. Which shows that values of inventories are applied consistently compared to previous years.

The company relies on succession planning for the necessary information to maintain the level of directors and to have clear criteria for their replacement.

Skills and experience/ Numbers of directors								
Retail/Commercial/Operational	✓	✓	✓	✓	✓	✓	✓	✓
Cyber risk/Digital	✓	✓						
Brand/Marketing	✓	✓	✓	✓				
Former/Current CEO	✓	✓	✓	✓	✓			
Property	✓	✓						
Listed market experience and governance	✓	✓	✓	✓	✓	✓	✓	
Finance/Accounting	✓	✓						

Figure 2 Skills and experience/ Numbers of directors (Next Annual report, 2020)

In trade, much of the expenses is for freight and logistics, negotiating supply prices and good relations with suppliers are extremely important. During this period, Next Plc's great focus on online commerce also required a large cost of courier services, replacements and product returns. Investing in the maintenance, development and updating of information on the product range of the company's online platform requires financial resources and human capital. Next Plc is closing some of its stores and is looking for new channels to offer its products.

NEXT operates an ongoing program of reduction, reuse and recycling, all their packaging is recyclable and in 2019 all their bags are 100% recycled. "NEXT works with the British Heart Foundation (BHF) to

help customers donate for reuse unwanted furniture and home products (including clothing) to raise funds to support BHF's aims. BHF generated £ 1.3 million from NEXT customers' donations between 2016–2019" (Next Annual report, 2020)

In retail, in particular clothing, there is always the possibility of stagnation caused by the great diversity of the market and changing fashion trends. Maintaining customer attention and the need for feedback to improve supply channels and customer information about products is extremely important and associated with continuous funding in this direction.

NEXT PLC VS. MARKS & SPENCER PLC

RATIO ANALYSIS WITH COMPARISONS TO THE COMPETITOR

Both companies are engaged in retail in the fashion industry. Their offer includes fashion for women, men, children, home products, cosmetics, shoes, underwear, furniture. The difference is largely expressed in the food industry, in which M&S are very popular, but Next has no presence in this industry. M&S was founded in 1884 and Next 1981, which has dividends for M&S such as recognition, market penetration, loyal customers, quality and experience. On the other hand, this may be a better option for Next because it is used as a fresh element in the collections offered by the company and in a larger range of targets. Both companies have websites where they offer their products.

BRAND	NEXT Plc/Annual report 52 weeks to 25 January 2020	M&S Plc/Annual report 52 weeks to 28 March 2020
1. Current Ratio	2.06	0.66
2. Quick Ratio	1.50	0.35
3. Cash Ratio	0.09	0.13
4. Debt-Equity-Ratio	2.80	1.13
5. Debt-to-Capital-Ratio	0.74	0.53
6. Gross Margin	0.38	0.003
7. Operating Margin	0.20	0.03
8. Net Profit Margin	0.14	0.08
9. Asset Turnover	1.16	1.00
10. Fixed Asset Turnover	7.37	1.85
11. Return on Equity	1.38	0.23
12. Return to Assets	0.17	0.08

The higher the ratio, the greater the liquidity of the company. Next have better liquidity. M&S have smaller current assets and larger current liabilities.

In the quick ratio, both companies have relatively equal inventory. Both companies develop their online trade, the maintenance of shops and buildings is associated with current costs such as rent and maintenance, renovation and staff.

M&S have a larger cash taking into account a larger value than Next, i.e. have more quick money to cover current liabilities.

Considering the two companies with a financial leverage ratio, companies borrow and invest money to increase their profits. One of the reasons is not to use a lot of own funds for investments. In both ratios, Next has a higher indicator because the company has less cash.

Revenue or total sales for a certain period of time can be seen from the income statement. Group revenue for M&S is £10,181.9m, for Next is £4,266.2m. "The goal is the profitability ratio maximization, instead of the minimization of the inventory cost per unit time or the maximization of the profit per unit time" (Pando, V., San-José, L.A., Sicilia, J., 2019). The profitability of the business is linked to the return on invested capital.

The efficiency of the assets, i.e. with how many assets how many sales the company can make. The efficiency of assets brings money to the company.

Return on investment is calculated from net income to total equity or total assets. Net income at M&S is higher than at Next. Book value of equity or Total equity of M&S is £3.709.5m to Next £441,5m. This measurement shows the company's ability to return the invested capital.

M&S Plc have a large availability of warehouses, transport bases, food inventory etc. and on the other hand, they have more expenses for legally required food and beverage fees and taxes and other legal provisions. All this should be taken into account when comparing with Next Plc.

Establishment of M&S's investment in Ocado Retail Limited "These "getting ready" costs, combine with the costs recognised in 2018/19 relating to setting up the investment in Ocado Retail, to bring the total expected one-off charges relating to Ocado Retail up to in the range of £6m-7m" (M&S Plc Annual report, 2020). As a result of this investment from September 2020, M&S's goods can be found on Ocado website. This is a perspective profitable move by M&S for the future of the company. "Ocado Retail is one of the world's largest dedicated online grocery retailers, delivering to over 745,000 customers in the UK" (Marks and Spencer plc, 2020).

"The future cash flows applied in the per una calculation reflect the Group's plans to grow the per una brand over the next three years. The plan assumes a sales decrease of 46.4% in 2020/21 and 70% decline in Clothing & Home sales compared with budget in the four months to July 2020, followed by a slow recovery back to budget by February 2021" (M&S plc Annual report, 2020).

M&S has a high result in the company's non-current assets such as investments in joint ventures and associations £760.4m, namely for the acquisition of Ocado. "The results of Ocado Retail Limited are incorporated in these financial statements from the date of acquisition to 1 March 2020" (M&S plc annual report, 2020). This shows the future orientation of Marks and Spencer Plc to the online market.

"The primary financial objective of the NEXT group is to deliver long term returns to shareholders through a combination of sustainable growth in earnings per share and payment of cash dividends" (Next Plc, 2020).

Next Plc includes in its future plans the protection of the environment and the use of recyclable packaging and materials, which makes them very socially oriented. "Work with suppliers to help reduce the impact of manufacturing processes on the environment through our 2025 Responsible Sourcing Strategy; Achieved a 35% reduction against our new 2030 Scope 1 and Scope 2 carbon reduction targets; Engaged over 150 of our largest suppliers in the ZDHC programme to support the elimination of pollution from waste water in their operation" (Next Plc, 2020).

After considering the financial indicators of Next Plc and Marks & Spencer Plc, it is necessary to note the differences in their future investments. Marks & Spencer present on the market for 136 years, this leads to a lot of history and ready-made spare tools to deal with or respond well to any situation.

Next Plc is one of the very well-established brands on the market not only in UK, but all over the world. Changing the supply from stores to online shopping is a very good step towards the dynamics of today's market.

One of the main channels for reaching the attention of buyers is the presence of advertising, promotions, PR strategies. The use of advertising on TV, social networks, events and promotions are a good option to attract the focus of the buyer.

Next offers wonderful brochures with beautiful faces, but they are not enough for the focus of consumers. These investments are expensive, but sometimes more profitable than many others.

The manufactured product, especially in the world of fashion, must be sold in a short time, due to its compliance with seasonal fashion trends and financial investment. Therefore, in addition to strategies for planning for a certain period of time in the future, it is necessary for the company's budget to be in line with the future. "All decision – making is an attempt to influence future outcomes and financial decision – making is no exception. The only thing certain about the future, however, is that we cannot be sure what is going to happen. There is a risk that things will not turn out as planned, which should be carefully considered in making all financial decision" (Atrill, P., McLaney, E., 2008; p.20).

CAPITAL INVESTMENT APPRAISAL TECHNIQUES

Year	Projected Cash Flows (£m)	
	A	B
0	-85	-90
1	10	40
2	20	35
3	25	7
4	65	40

Assume that the company's cost of capital is currently at 10.25 per cent.

Payback Period (PBP) – "The Payback Period shows how long it takes for a business to recoup an investment" (CFI Education Inc, 2015). The advantages of the payback period are that it is very easy to communicate. Disadvantages of Payback period is that ignores time value of money and not take into account of risk.

Project A: PBP = 3.46 = 3.5 years

Project B: PBP = 3.2 = 3.2 years

Accounting Rate of Return (ARR) - Accounting rate of return or total income from sales minus how much money you spent. ROCE is also known as accounting rate of return Accounting Rate of Return (ARR) and return on investment. Advantages of return on capital employed are that it gives value in known percentages, can compare mutually exclusive projects and considers the whole project, as opposed to the payback. Disadvantages: profit that is not directly related to the main financial goal of maximizing shareholder wealth uses average profit and therefore ignores the time of profit, ignores the value of money over time, a relative measure and thus ignores the size of the initial investment.

Project A: ARR = 0.206 = 20.6%

Project B: ARR = 0.18 = 18%

Internal Rate of Return (IRR) – The use of the IRR will facilitate the final decision for the implementation of the project. IRR returns the net value of cash flows based on a sequence of future payments, income, losses or zero cash flow.

Project A:	IRR = 0.34 = 34%	R1 = 10%	R2 = 11%
Project B:	IRR = 0.5401 = 54.01%	R1 = 13%	R2 = 14%

Net Present Value (NPV) - NPV always gives correct selection advice. NPV decision rule is to accept all projects with a positive net present value. It is preferable to choose a project with a positive NPV.

Project A:	NPV = 3.04
Project B:	NPV = 7.22

Considering Project A and Project B as capital investment opportunities, it is necessary to make the necessary calculations to decide which of the two projects is more suitable for investment and whether the business will get its money back. The necessary information for the company's management is whether the investment will provide cost savings during the project and whether it will be profitable by exceeding the investment. When considering an investment for a long period of time, it is necessary to take into account the risk for this period, so the first consideration is for what period the investment will be returned. The quick payback of the investment provides a better atmosphere and peace of mind on the part of investors, and on the other hand, over time, forecasts are more difficult to be accurate due to risk factors.

Payback Period (PBP)

Focusing on the periods for which the investment under Project A and Project B will return, attention should be paid to the cost of the project. For Project A, the £ 85m investment for Project B is £ 90m. In Project A the investment is smaller, but the payback period is 3.5 years, also in the first year the profit is low, followed by an increase in 2 and 3 years, the largest being in the fourth £ 65m. This carries some risks because the largest amount will be from the profit in the future, which hides its risks. In Project B, a large part of the invested capital £ 40m is returned in the first year and the time for the full return is 3.2 years. Here the advantages are for Project B because in the first two years they have returned more than half of the investment and provide peace of mind to investors.

Accounting Rate of Return (ARR)

ROCE is also known as the Accounting Rate of Return (ARR) and Return on Investment (ROI). For long-term projects, it is necessary to take into account depreciation during this period. A period of 4 years for both projects is relatively long. This calculation considers the whole project, not just the payout, so it is better to choose a project with a higher ROCE. The disadvantages of this calculation are that it ignores the profit time, ignores the value of money over time because keeping the same value of money for 4 years is questionable. For a 4-year period, economic changes are possible, social changes that may reflect on sales and the projected return on investment and profit may not materialize or be postponed. With this indicator, Project A has a not much higher percentage of 20.6% than Project B with 18%.

Internal Rate of Return (IRR)

IRR is a discount rate which gives zero NPV for the project. It is a rule to accept projects with an IRR higher than the cost of the company's capital. This method suggests that cash flows can be reinvested at an IRR rate. Therefore, when using this calculation, different percentages are needed to bring the closest to the invested capital. In Project A it is 34%, and in Project B it is 54.01%.

Net Present Value (NPV)

When using this calculation, attention is paid to the net value of the project, which must be positive. The advantages of NPV are that it takes into account the value of money over time and gives the absolute value of the project, but it should be borne in mind that the cost of capital may change during the project period. In Project A the NPV is 3.04 and in Project B it is 7.22.

NPV is generally an accurate indicator, but the IRR is a fairly close and useful calculation, the ARR and the payback period are insufficient, but are important for the initial evaluation of the project. So, based on these calculations, the choice should be for Project B.

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