

Financial Management Assignment

Tittle: Corporate Financial Analysis

Task description: *Analysing the financial status of a particular company over the past five years, comparing with the sector average ratios and comparing with its competitors. The chosen company should be listed in London stock exchange.*

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Introduction

This report will discuss the financial performance of the chosen company which include some of financial ratios like (profitability ratios, efficiency ratios, gearing ratios and liquidity ratios). The aim of this report is to calculate this ratios and to make a critical analyse of the calculation within a period of the past five years, to compare this ratios and to explain the possible changes on them. Furthermore there will be a comparison analyse with the major competitor of the chosen company, to make some predictions of the future of this company against its competitor. In the end it is needed to discuss some limitations of this ratios. The company that is chosed in this report is JD Sports fashion plc and as a major competitor will be Sports Direct International plc.

JD Sports fashion plc is the leading retailer and distributor of branded sportswear and fashionwear. It is established in Bury in 1981 when John David Sports was founded. By 1983 the business was expanding opening other stores firstly into the Arndale Center in Manchester followed by other openings, especially in North and Midlands. The first shop in London was opened in 1989 in Oxford Street. In 1996 there was 56 stores and the profit was increasing due to the growth in sales of international brands such as Adidas, Nike, Puma and Reebok. In 2002 the number of stores went to 200 with the acquisition of First Sport. In 2005 JD Sports operated in UK, Republic of Ireland and through Chausport in France. Year by year its acquisition of different brands was increasing such as in 2007 with the acquisition of Bank fashion. In 2009 JD Sports faced a great extension through the acquisition of Chausport which operated in 75 stores in France. It also acquired the rugby heritage brands "Canterbury of New Zeland" as well as "Kooga Rugby" brands. JD has the controlling interest in www.getthelabel.com which sells products to families at attractive prices. In 2011 saw further European expansion of the JD Group through the acquisition of Champion Sports which has 23 stores in Ireland and a 50.1% share of Sprinter which has 47 stores in Spain. Also in 2011 another rugby brand, 'Kukri' was part of the Group. In 2012 the JD Group acquired the trade and assets of Blacks Leisure Group Plc when it went into administration trading from 290 stores under the Blacks and Millets fascias. It entered in outdoor market in 2012 by purchasing the Black And Millets store portofolios. It continued the extension in France and Spain and was considering the extention in other territors in Europe. JD Sports in 2013 consisted of the Sports retail businesses of JD, Size?, Chausport, Sprinter, Champion Sports and Activ Instinct together with Topgrade, Kooga, Kukri, Focus and Source Lab. The latter were formerly included within the Distribution segment but in their streamlined segmental structure were then classified within Sport as the product which they deal in was predominantly either active sport or sports fashion related. Fashion in 2013 consisted of the established Fashion retail businesses of Bank, Scotts and Tessuti, together with Cloggs and Ark, which were both acquired during the year, and Nicholas Deakins which was formerly included within their Distribution segment but in their streamlined segmental structure was then classified within Fashion. In 2014 it opened the first JD gym. In 2015 it faces some significant increase in number of stores such as new stores in London, Amsterdam and it was opened the first store in Belgium, Italy, Sweden, Denmark. JD Gyms received Best Budget Gym Award and Football Federation Kit launched Scotland, Wales, Northern Ireland with JD

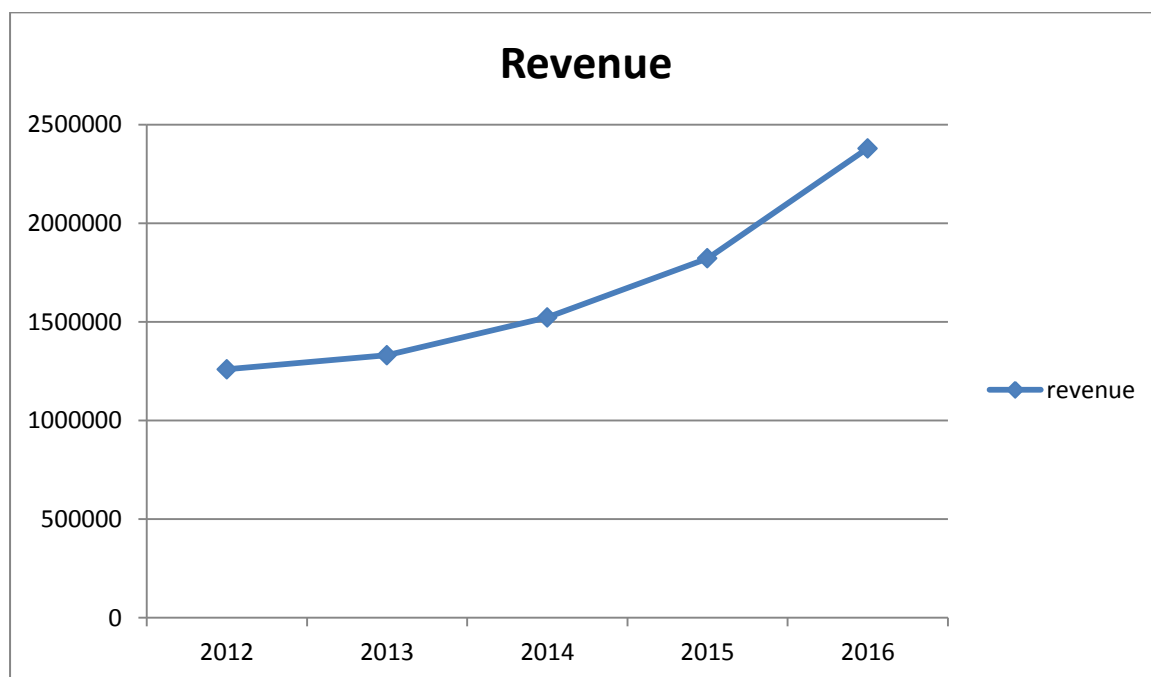
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Sport as exclusive retailer. The first JD store in Asia in Kuala Lumpur was opened in 2016, It also purchased the trading assets and trade of Atkie sport and Perry sport fascias. JD acquired the trading website which trade as Sports Empire, Revolution and The Marathon Shop. On 26 August 2016, the Group acquired 80% of the issued share capital of Next Athleisure Pty Limited. Next Athleisure Pty Limited operates 32 stores and a trading website in Australia under the Glue and Superglue retail banners. A new flagship style JD store was opened at Rue Neuve in Brussels. JD were the exclusive retailers of the Wales and Northern Ireland kits for the UEFA Euro 2016. JD was the official sponsor of the Soccer Aid event. JD were the exclusive retailers of the Wales and Northern Ireland kits for the UEFA Euro 2016. November 2016 JD Group won the “Business of the Year” award at the Manchester Evening News Business Awards. On 27 November 2016, the Group acquired Go Outdoors. Go Outdoors is a nationwide omnichannel retailer catering for the outdoor enthusiast and specialist alike with 58 stores across the UK at acquisition, the majority of which are situated in out of town retail parks. **In December 2016 JD was included in a working condition scandal. A footage broadcast on Channel 4 showed that working conditions of JD were worse than a prison and also the salary was less than minimum wage. Therefore JD was deeply disappointed by this article and decided to make an investigation at its warehouse. Iain Wright MP who led the investigation in working conditions at Sports Direct which is the main competitor of JD pointed out that conditions at JD were twice bad than these at Sports Direct. (THE INDIPENDENT).** March 2017 JD Sports Fashion Plc received the Company of the Year award at the PWC PLC Awards 2016. JD Sports Fashion Plc won the Retailer of the Year award at the Retail Week Awards. JD Sports Fashion Plc on 14 September 2017, it entered into a joint venture agreement ('JV') with Shoemaker Inc ('SMK'), which is a South Korean retailer of footwear, in relation to J&S Partners Inc, a company owned by SMK. It should not be avoided the fact that JD closed many existed shops but the proportion of shops closed toward the number of shops opened was very low so it was difficult to impact significantly in the sales of the company. Also, many of stores were closed in order to be reopened and relocated in larger spaces. JD is not operating only in selling sportswear but it is generating profit from other investments such as gyms that JD possess. Even JD is winner of UK's Best Budget Gym Award 2015-2016 and 2016-2017. The business would continue to be operationally run by its existing management team. The major competitor of this company is **SPORTS DIRECT INTERNATIONAL** founded in 1982 in UK. The Group provides a full multi-channel retail approach across its fascias in the UK, and increasingly across its fascias in continental Europe and elsewhere. The Group also wholesales and licenses its Group Brands to partners in the UK, continental Europe, the Americas, and the Far East.

Financial analysis of JD Sports.

Tab.1 Five year record of some financial indicators.

JD Sports	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Revenue (£'000)	1,258,892	1,330,578	1,522,253	1,821,652	2,378,694
Sales Growth(%)	18.8	5.69	4.67	14.4	30.5
Gross Profit (£'000)	613,488	645,130	739,550	884,221	1,163,641
Operating Profit (£'000)	55,975	59,052	92,646	133,406	239,793
Net Profit (£'000)	41,242	41,486	53,971	100,630	184,580



According to Revenue illustrated in this graph it increases gradually year by year and reached the peak in 2016 up to 2,378,694. Clearly shown in the table the period 2012/2013 saw a significant increase in sales with approximately 19% sales more than in the FY2011/2012 and it can be easily justified by the fact that entering of JD in outdoor market was a milestone for this company. It purchased Blacks and Millets which sells outdoor clothing, camping equipments etc. The most remarkable increase in sales was approximately 40% achieved in the Financial Period 2016-2017. One internal factor of this phenomenon can be the extension of the company during the year. A big investment was trading the website which trade as Sports Empire, Revolution and The Marathon Shop. Also the trend to wear sportswear in everyday life rather than only in sports field was a major factor that created an advantage in company revenue. In 2016 JD closed five stores in Europe but three of them was closed to be

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opened in larger space therefore it can be a reason for this increase. From one shop in 1981 JD Sports rose the number of stores every year going to more than 1300 stores all over the world especially 2016 saw the highest extension of this company. Also other factors to take into account are some milestones in 2016 such as winning awards like “**Business of the Year**”, “**Retailer of the Year**” that can serve as a positive marketing for attracting new clients. Furthermore the JD Sport was the official retailer of the Wales and Northern Ireland kits for the UEFA Euro 2016. JD. The same trend can be seen at Gross profit, Operating profit and net profit and it is expected since profit of the company is driven by sales. So an increase on sales leads to an increase on the profit.

Tab.2 Profitability ratios

	2012	2013	2014	2015	2016	Sports Direct International 2016
Gross Profit Margin (%)	48.7	48	48	48.5	48.9	41
Operating Profit Margin (%)	4.4	4.4	6	7	10	4.9
Net Profit Margin(%)	3	3	3.5	5.5	7.7	7

Gross profit margin is a financial indicator that shows how much of 1 pound sales goes to the company profit after accounting the expenses of the goods sold. It is calculated as Gross profit divided by sales. Gross profit is driven by sales and cost of sales so these factors should be analysed in order to explain changes in gross profit margin over the years and toward its competitor. For example international extension strategy plays a crucial role in gross profit because if there are more stores available there can be generated more sales. In case of JD it can be clearly seen that over the years this ratio stay almost the same at 0.48. This means that since this company has stable gross profit margin it is healthily operating, effectively using its assets for its profit perspectives and it is successful in planning and forecasting the future in order to prevent uncertainties. As illustrated in the tab1 sales have changed significantly over the years so since gross profit is driven by sales there is expected a change in gross profit margin but it did not change. This can be explained by the possible increases in the cost of sales respectively over the years and in this way the proportion **cost of sales/sales** remains almost the same, consequently the gross profit margin do not change as much. Compared with Sports Direct JD has a higher gross profit margin. In one hand sales are higher for Sports Direct, but on the other hand it looks like JD operates at lower costs. Cost of sales for JD make 51% of sales while for Sports Direct they make 59% of sales so this proportion can be a possible reason why JD has a higher gross profit. According to CSIMarket.com in 2017 regarding to apparel sector if gross profit margin is 52.75% it is considered as high ratio. Since the JD Gross Margin is 48% which is close to the benchmark ratio this is a positive side which witness the healthy use of its assets for sales purposes.

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Operating profit margin indicates how much of 1 pound sales goes to operating profit. Operating profit is the profit from the major activity of the company. In 2012 the operating profit margin was 4.4% and this was the lowest ratio over these five years. As shown in the tab2 there is a slight increase on operating profit margin going up to 10% in FY2016/2017 which is twice compared with Sports Direct. This means for JD that from one pound sales 10 pence goes to operating profit. In other words only 10 pence remains after paying the operating expenses. This is a low ratio which indicates that the operating expenses of this company are high but compared with Sports Direct it is almost twice. This is considered as appropriate measure in cases of comparisons within the same sector because differences in finance incomes and finance costs does not have an impact on operating profit. Also, the category "other incomes" which are income by chance in terms that this incomes are not predicted and can not be predicted accurately are excluded so in this way chance does not impact on operating profit for both companies.

Net profit margin indicates how much of 1 dollar sales goes to net profit. For example in FY2013 the net profit margin was 3% of sales. It is a low percentage but it is not something unusual compared by the retail sector which is characterised by an average of 5%. According to changes over the years there is a positive change that indicates an increase up to roughly 8% in FY2017 which is almost the same with Sports Direct. The Net profit margin is driven by sales which are an **internal factor**. Since sales were increasing year by year there is expected for net profit to be increased.

Tab.3 Liquidity Ratios

JD SPORTS	2012	2013	2014	2015	2016	Sports Direct International 2016
Current Ratio	1.2	1.15	1.22	1.46	1.33	1.719
Quick Ratio	0.5	0.5	0.53	0.78	0.68	0.87
Cash Ratio	0.25	0.26	0.37	0.62	0.46	0.27

Liquidity is the ability of the company to meet its financial obligations with its liquid assets it has available.

Current ratio indicates the ability of the company to pay its short term financial obligations with its current assets. It is calculated as current assets divided by current liabilities. If a current ratio is greater than 1 it means that the company has more current assets than current liabilities, therefore the company is considerably able to pay its financial obligations. In the first sight it can be easily seen that the company has its current ratio greater than 1 over five years which means that it is healthy in meeting its financial liabilities. According to changes of

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this ratio during these five years it is obvious that it is stable which is positive for the company. On the other side compared with Sports Direct it has lower current ratio. It can witness the fact that Sports Direct is more able to pay its obligations but there should be into consideration some other factors that affect the current ratio. Current ratio include **cash, inventories and other liquid assets**. The fact that JD Sport has lower current ratio may be explained in a positive viewpoint. JD may decide to keep less cash and prefer to put its cash in investments consequently increase the company profit. On the other hand it may happen because Sports Direct may have more liquid assets or has less short term obligations. The inventories can serve as an internal source of financing. A particular company may decide to keep less inventories and to use the cash that they used to buy inventories in cases of financing Atley and McLaney(2011), therefore JD may be following this strategy. Simply in this case keeping less inventories is an opportunity cost. By observing the financial income statement and financial position statement of these companies it can be noticed that the inventory of JD makes approximately 14.5% of sales while inventory of Sport Direct makes roughly 19% of sales that means that Sports Direct keep more inventory than JD. In retailer companies inventory cycle should be short, hence, usually, retailer companies keep minimum levels of inventory so it is difficult to decide which is the exact reason of changes in this ratio hence there should be discussed the quick ratio which exclude inventories and to see the impact of excluding them.

Quick ratio is a liquidity ratio that represent the ability of the company to pay its short term obligations as well as current ratio but it is more conservative. Inventories are considered difficult to convert into cash so excluding them leads to a more effective measure. In case of JD it is characterised by low quick ratio which vary from 0.5 to 0.78. This fact can be related to some factors like the balance sheet of JD is over-leveraged or the company is having difficulties on collecting its account receivable. In comparison with Sports Direct it is obvious that Sports Direct has a greater quick ratio but there is no big difference. Another evidence is the fact that within the JD company the current ratio and quick ratio have a big difference. Easily explained, it can be seen that every year, quick ratio is approximately half of current ratio. This means that the inventory make a major part in current ratio which means again that this company keep much inventory compared with other liquid assets. The reasons it keep much inventory can be related to **customer satisfaction**. To keep costumers satisfied the company need to fulfil their needs when costumers required. **Supplier discounts** can be another reason why JD may decide to keep much inventory. This consist in the fact that when a company buy to much inventory suppliers offer discount in prices. Many times it may happen that suppliers have **delays on distributing** products to retailers so in order to avoid these delays the company may keep much inventory etc. Compared to the apparel retail sector JD has a healthy ratio which is slightly greater than its sector average (www.creditguru.com).

Cash ratio is the third liquidity ratio which compare cash and cash equivalents to current liabilities. Since cash is the most liquid asset it means that cash ratio is the most conservative way of measuring company's liquidity. It is expected for cash ratio to be low because the company should not keep too much cash because if it keep too much cash it can be considered

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as a very healthy in terms of liquidity and can pay its obligations quickly but the opportunity cost in this case could be investing them on other investments to generate higher returns. In case of JD this ratio can be considered as healthy ratio and in 2016 its cash ratio is greater than Sports Direct cash ratio. Compared over five years this ratio increased slightly from 0.25 in 2012 followed by other increases in other years and going up to 0.62 in 2015. It faced a modest drop in 2016 down to 0.46.

Tab.4 Efficiency Ratios.

JD Sports	2012	2013	2014	2015	2016	Sports Direct International 2016
Assets Turnover	2.5	2.21	2.23	2.3	2.01	1.32
Inventory Turnover	4.4	3.68	3.47	3.93	3.49	3.04

Assets turnover is an efficiency ratio that indicates how efficiently the company is using its assets in generating sales. It is calculated as sales divided by total assets. The higher the asset turnover ratio, more efficiently the company is using its assets because a high asset turnover means that the company generates greatly sales from one pound of its assets. **For example** in 2012 JD generate 2.5 pound sales from 1 pound of its assets. This is a good indicator. Over the years this ratio has slight increases and decreases but what is important is the fact that it stayed always over 2. According to CSIMarket the best performing apparel retail companies has an assets turnover ratio 2.43 which is almost the same with the average of JD ratio so it indicates again that this company is considerably efficient in using its assets for sale purposes. By observing the year 2016 for Sports Direct it is evident that this ratio is approximately half of JD ratio which means that JD is more efficient than Sports Direct.

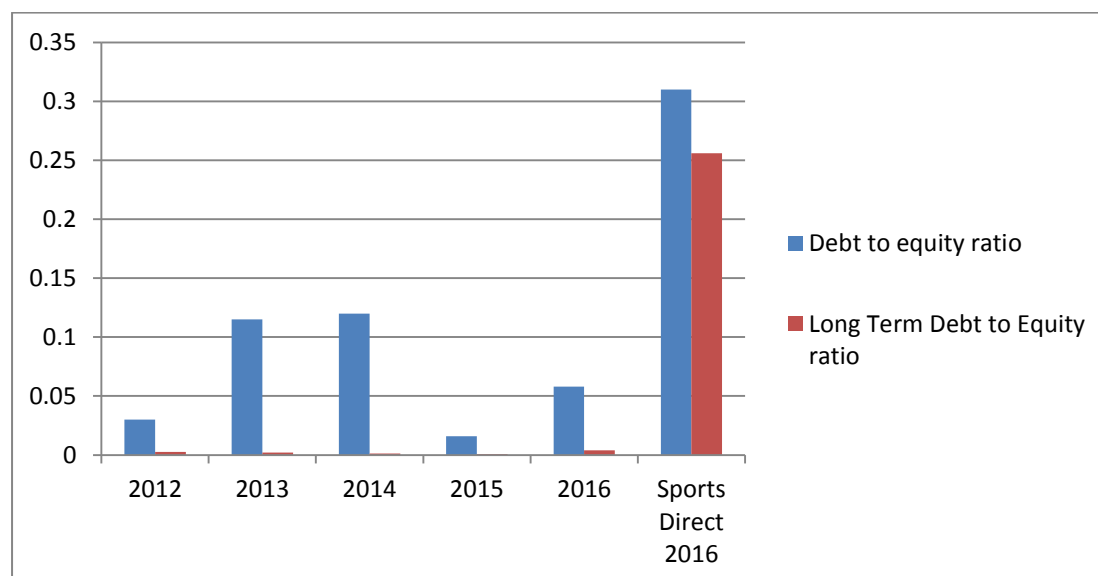
Inventory turnover is the second efficiency ratio which measure how fast the company is converting its inventories into sales. Simply put it represent the number of times inventory is sold and replaced in a particular time which usually is one year but it can be shorter. It is calculated as cost of goods sold divided by inventory. The higher this ratio the better the company is executing at selling its inventories. For example in 2016 JD is able to rotate its inventory 3.49 times within this year. In this way inventory turnover is a good ratio to help in planning inventory logistics, suppliers relationships, inventory storage in cases of business expansion. Also it can help in identifying the products that are not being sold so much so the attention would go to these products in order to move them quickly by focusing on these products selling strategies etc. JD has almost a constant inventory turnover ratio during the last five years which may be as a benchmark for this company to keep always the same quantity of inventory. According to **Business Development Bank of Canada** the benchmark of retail sector industry (shoe stores) is 2.6 while JD has 3.49 which means that it has a good balance between inventory and demands from costumers. Also it means that JD want to minimize the risk of loosing its costumers due to lack of inventories but on the other hand it

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can be exposed to having a costly obsolete inventory because of overstock. However this benchmark ratio cannot be taken as absolutely right because it was for footwear in particular while JD sells sportswear and other accessories so it is wider in variety of its products and services.

Tab.5 *Leverage(Gearing) Ratios.*

JD Sports	2012	2013	2014	2015	2016	Sports Direct International 2016
Debt to Equity Ratio	0.03	0.115	0.12	0.016	0.058	0.31
Long Term Debt to Equity Ratio	0.0027	0.002	0.0012	0.00068	0.004	0.256



Debt to Equity ratio is one of the leverage ratios which compares the total debt of the company with its total equity. It is calculated as total debt divided by total equity. In simply words, it indicates how much the company is financed by loans and how much is financed by equity shareholders. For example as the graph suggests that JD has a very low gearing ratio. The highest ratio was only 0.12 in 2015. In 2016 JD's debt to equity ratio was approximately 0.06 which means that the company creditors provide 0.06 pence for each 1 pound provided by stockholders for the company. This implies that JD uses few outside finance resources. Companies with lower leverage ratio are less risky due to the fact that in cases of financing by debt the company must repaid the debt to the lenders despite its financial health. Meanwhile the company is free to choose if it wants to share the dividends or not so financing by shareholders is less risky. On the other hand outside financing resources seems to be worth it because lenders accept lower rate of interest as they are secured in receiving their returns while shareholders requires high ratio of return due to the fact that they are not

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secured in receiving their returns. Furthermore by investors viewpoint companies with low leverage ratio possibly suggest that they are performing well and existed shareholders are interested in this company and invest to much on it and new investors would be happy to invest on it. Simply put low leverage ratio can serve as an investor attraction. By observing the leverage ratio over the last five years it changes year by year increasing and decreasing but there are not drastic changes. On the other hand compared with Sports Direct there is a big difference. In 2016 as JD was financed almost only by its investors while Sports Direct debt made 31% of stockholders equity which means that from one pound invested by shareholders lenders provide 0.31 pence. In the first sight it can be suggested that JD is less risky than Sports direct in terms of financing but other factors should be taken into account. For example by looking at income statement of JD and Sports Direct it can be seen that Sports Direct net profit is greater than JD net profit. This is an indication that possibly Sports Direct has used the debt finance to increase the operations in order to increase its profit. In this case the shareholders benefits would be more because a greater net profit is divided in the same number of shareholders hence existed shareholders of Sports Direct would be happy to be part of this company. However this is worth it only if additional earnings from financing by creditors exceed the cost of financing like interest cost and other financing services.

Long Term Debt to Equity ratio is another leverage ratio but more specified as it excludes short term debt. It is calculated as long term debt divide by equity. In case of JD this ratio is too much low. **By looking the graph long term debt to equity ratio is almost invisible.** The highest percentage is achieved in 2016 respectively 0.004 which means that lenders of long term loans possess only 0.4% of stockholders equity which is extremely low. What is more obvious in this case is the fact that the difference between **Total Debt to Equity and Long Term Debt to Equity** ratio have a big difference which indicates that this company use more short term borrowings than long terms borrowings. An explanation why JD use short term debt instead of long term debt may be the fact that it borrow money from outside resources only to use for its networking capital. By looking at notes of financial position in 2016 there is shown that this company use mostly **overdrafts** as financing resource. The amount of **overdaft is 6,191,000** while 66,000 is just the remaining amount to be paid from a mortgage and other loans whose remaining period to be matured is less than one year so this is the reason they are included in short term loans. Also 44,000 is the amount of the remaining finance leases obligations to be paid within one year. Sports Direct long term debt to equity ratio far outweigh JD ratio. Its long term debt made 25.6% of stockholders equity while JD long term debt made only 0.4%. Also the total short term borrowings of Sports Direct is made **by overdrafts only** which is respectively 69,500,000.

Limitations of Financial Ratios.

When analysing financial ratios some limitations may emerge due to many factors that can affect. Firstly as sectors change, ratios change as well. Secondly even if within the sectors companies are not identical because each company chooses its policies and practises of accounting. Thirdly these financial ratios depend on the size of the company. Another evident factor that impacts the company ratios is the financial calendar. Different companies have different financial calendars. Some of the limitations in particular ratios are as below:

Current Ratio. When analysing the current ratio investors and managers should be aware that the current ratio does not represent the exact view of the company's liquidity. There should be considerations on the types of current assets and the liquidity level of these assets. For example, some accounts receivable are a current asset so they can be considered the same type and category for different companies but it should not be left behind the fact that different companies collect their accounts receivable quicker or slower than others, therefore the current ratio is not an exact barometer of liquidity.

Quick Ratio. As mentioned during the analysis of this report, the quick ratio excludes inventory as inventory is difficult to convert into cash in order to pay the company's short-term debts. This makes the quick ratio more effective in analysing its liquidity. On the other hand, if the company decides not to use inventory to pay its debt, it needs to use all other current assets to pay its short-term obligations but the company cannot use all of them because it needs some working capital to continue its business.

Cash Ratio. Cash ratio is a tight measure of liquidity. It is difficult to decide which is the best benchmark of this ratio. If this ratio is too high, in the first sight it looks that the company is powerfully able to pay its short-term debts but managers should be aware that keeping too much money as an asset is not effective because the company would use these cash in other investments in order to increase its profits. However, if this ratio is too low, the company is risky because other assets are difficult to convert into cash and the problems regarding to pay its obligations may arise.

Inventory Turnover. It can be suggested that for companies that a high inventory turnover indicates efficient circulation of inventories. Inventory turnover is driven by two factors like cost of **goods sold and inventories** so a high ratio of inventory turnover may imply a low level of inventories held. Keeping low levels of inventory means that the company needs to order inventory frequently which has additional costs. On the other hand, if inventory turnover ratio is too low, this means that the company has difficulties in converting its inventories into sales. Also, it may indicate that the company keeps too much inventory which has another costs like storage cost, maintenance costs etc. Also, inventory turnover depends on cost of goods sold. So another explanation of a low inventory turnover ratio can be the fact that cost of goods sold may be too low. When comparing companies within the sector, this may change by the fact that different companies may differ in selling costs, it depends on company operating efficiency.

Assets Turnover. Assets turnover represent the efficiency of the company in using its assets to generate sales but not all assets are put in use in order to generate sales. In this case a limitation emerge because assets turnover do not exclude assets that are not included in sales activity. These limitations are applicable in cases of a comparison within the company during a period and when in comparison with its competitor. For example it may happen that the company has a big decrease or increase in its assets turnover. In the first sight it may look something strange but maybe the company sold a big machinery or it bought a big machinery for business growth purpose. This machinery will increase or decrease the quantity of assets respectively consequently it changes considerably the assets turnover ratio, hence, this represent a misinterpretation of assets turnover.

Leverage Ratio. Leverage ratio is a measure to compare how much the company is financed from outside resources and how much it is financed by its investors. A company with a high leverage ratio is considered too risky because it may be an indication that company is not in a healthy financial position and may not be able to pay its obligations to the lenders but on the other hand company may choose to borrow money to expand its business consequently to increase its profit. Also investors would like to profit from lenders so for investors a high ratio may be seen as something worth it. According to lenders if a company has a high leverage ratio it means that the company is more financed by outside than by investors which imply that fewer investors are interested in this company so the company may be not performing well, consequently they see the company as not secured in paying its obligations so the lenders refuse to lend their money to this particular company.

There is a limitation in the case of **comparing long term to equity ratios** between two companies because these two companies may refer to use long term and short term borrowings in different proportion. Simply put, Sports Direct has a higher Long Term Debt to Equity ratio but this does not definitely mean that is financed more by creditors than JD because as mentioned before JD prefer to use more short term debt than long term debt while Sports Direct may prefer to use more long term debt and this is illustrated in the tab.5 and in its Balance Sheet.

Gross profit margin. Firstly this ratio include only sales and cost of sales and exlude other incomes and administration costs so it is difficult to use as a profitability measure to analyse the progress of the company over the years. It indicates only changes in sales and cost of sales.

Operating profit margin. Operating profit margin is a wider measure than gross profit margin because it includes administrative expenses so it can be used as a better barometer but expenses of the company do not finish at this point. There are other important expenses and incomes like finance incomes, finance costs, taxation which are exluded so due to these reasons operating profit margin is not definitely a clear view of profitability of the company. On the other hand it should be considered the fact that this ratio is not such effective when comparing because it includes other expenses and incomes which differs from

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one company to another. Despite being within the same sector it depends on company's internal strategy how they organise operating activities.

Conclusions and Recommendations.

JD is performing well in general. It is expanding its activity and its presence within the UK time by time and expanding its geography in other continents. Also it is extending its business in other sector operating with gyms and acquiring some outdoor retail companies like Black and Millets. Its net profit increased every year of the period 2012-2016. Its financial ratios are very close to financial ratios of its sector which is a good indicator for the company performance. The only part that managers may need changes is the amount of inventory. As discussed at liquidity ratios it was obvious that this company keep much inventory as illustrated by the big difference between quick ratio and current ratio. This is not necessarily good because it has costs as mentioned at limitations of liquidity ratios. Improving the strategies of forecasting of the sales may help managers to keep inventory a little bit more than demands predicted. For example as stated at chairman statement of JD this company is a bit seasonal regarding to Christmas time. During this period it may need to keep more inventory to be able to meet customers demands. It is important so emphasize none of all ratios was below the minimum required in general. Another good aspect of this company is its way of financing as it is financed more from its investors than its creditors which makes it less risky and more stable.

Because of the UK's vote to leave the European Union there are expected some negative impacts or some difficulties in forecasting the future of JD sport activities and operations especially in European countries but as Peter Cowgill (Executive Chairman of JD) stated in his report despite the Brexit issue, international expansion will be their strategic focus.

This company operate overseas in this way sales generated in European countries and countries in Asia need to be converted into pound so the exchange rate may effect positively or negatively in the profit of the company depending on changes of these ratios.

As described in the introduction in the end of 2016 this company was included in a working condition scandal so there is a big possibility to affect negatively the financial year 2017-2018. This scandal may serve as negative marketing due to the increasing awareness of people in treating employees fairly, consequently sales may face a decrease but to see the exact result there should be compared the sales of the financial period April 2016-2017 with the financial period of April 2017-2018 which are not published yet. In order to be valued by customers it should change the working conditions and salaries and promoting not only the quality in products but in order to be successful it also should guarantee a high quality in treating employees carefully and fairly.

Furthermore the company launched its new gym but it was the first time that the gym and retail store would be in the same site which was exclusive to JD therefore there is expected an increase in profit due to the increasing profit from sales and from gym services.

According to future threats from its major competitor Peter Cowgill the executive chairman of JD pointed out "We are first choice for the launch products of the premium brands. When they launch innovations, technologies in footwear and also textiles they want to do it with

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JD,” so he is of the opinion that there is no threat from Sports Direct even Sports direct is making effort to become the Selfridges of Sport (the Guardian).

The increasing availability of many sports clothes retailers leads to a high price elasticity of demand for sportswear, consequently the company has difficulties in increasing the prices. If it increase the prices it may loose its existed clients. Also information technology as an **external factor** makes it easier to compare the prices in the different shops therefore customers can compare the prices easier and have a high variety on their choices, consequently, if it increase the prices it may loose its existed clients and new ones.

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