INTRO

The company, which is being investigated, is Sainsburys Plc, which along with Tescos & Asda is one of the 3 main supermarkets in the U.K Currently Sainsburys are 3rd and are ever closing the gap between themselves and their competitors ahead. The purpose of this report is to analyze the financial accounts of this company, comparing in detail the past two years. A detailed evaluation of the performance over the past 5 years will be made, using relevant ratios and profitability figures to highlight any possible trends. A general performance evaluation of the company's use of cash will be made. Any Financial Reporting Standards (FRS) which the company adhere to will be highlighted and an evaluation of how these FRS affect the company's accounts will be looked at.

FINANCIAL REPORTING STANDARDS (FRS)

Due to the factual nature of the accounting world, the need for stringent provisions is apparent. The provisions of the Companies Act 1985 were amended by the Companies Act 1989. This legislation also made possible the voluntary revision of accounts. Therefore Sainsburys, as with it's competitors, are subject to the requirements of this act, which demand strict legislation regarding a company's accounts. They therefore have to adhere to the FRS they deem necessary and they have to show evidence of this in their accounts.
The company values it's tangible fixed assets i.e. buildings & land at historic costs [1]. Choosing to provide depreciation on a straight-line basis over the anticipated useful economic lives of the assets. By doing so they are following the transitional provisions in the FRS 15 regarding total fixed assets. The Reporting Standard recognizes that due to macro-economical forces prices may increase or decrease over time, which may result in a change in the purchasing power of money. By stating that the open market value would significantly exceed the net book value of £6 billion, they are letting potential investors know that a current valuation of their properties are worth far more [2].
Prior to FRS 15 companies were free to revalue which ever property they choose, enabling them to manipulate their published accounts. By stipulating that a consistent valuation policy must be adopted, it allows for greater consistency in accounts.
The company's pharmacy licences are included in intangible assets and amortised on a straight-line basis over their useful economic life of 15 years. Other licences are amortised over 3 years[1].
The company also values its goodwill as an asset, recognising it in the B/S. Again goodwill is amortised on a straight-line basis and the assumption id made that it has an indefinite economic life. This area has been a cause for much attention as intangible fixed assets lack a clear identity and goodwill/branding cant be specifically valued like that of a physical assert.
Therefore any internally generated goodwill, which Sainsburys have created, cannot be accounted for. However, purchased goodwill is required to be amortised. The company has chosen not to add internally generated brands to their P/L.

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[1] See Append 1 (Pge 26)

[2] See Append 1 (Pge 33)

FRS 10 requires that any purchased goodwill amortised over it's useful economic life, which in general will not exceed 20 years. However, if a company chooses to amortise for their goodwill over a shorter period of time, it will have an adverse affect on their P/L. So in retrospect it is not surprising that Sainsburys have chosen to amortise for 15 years.
According to the criterion of a true & fair view, financial statements should contain sufficient info in quality and quantity to satisfy the expectations of the readers. There readers will expect the statements to comply with the standards.
However, 'a true and fair view' is not as clear as one would expect, when regarding financial accounting. This compliance is subject to changes in opinion of one person to another. So basically, one persons view of 'true and fair' could differ drastically form that of another. So, by adhering to the guidelines of the FRS one would expect that the accounts are 'true and fair', subject to opinion.

2 YEAR 'IN DEPTH' COMPANY ANALYSIS.

(Please Refer to Append 2)

The ROCE has improved from 10.2%-2002 to 10.6%-2003, this isn't a dramatic improvement but it does show that the company is still improving. We must take into account that the company has invested heavily in store expansion programs & significant IT systems changes.

There has been an improvement in NPM & GPM as a result of £276m growth in sales over the year, without any increase in costs. The GPM has increased by 7%, which will leave profit for covering remaining expenses and payment of dividends. The Asset turnover has decreased in 2003, which shows productivity has decreased, and the group's assets have actually produced less. However, the group has significantly more assets in 2003, due to heavy investments in new projects. The group have identified the exceptional operating costs of 'the Sainsburys U.K business transformation program' would be incurred for at least 3 years. The group has poor utilization of resources, as reflected in the significant decline in asset turnover. This is mainly attributable to major capital expenditure during the last year, the benefits are not expected to be reaped for some time yet, with predicted capital expenditure expected to be £1.1 bn for 2004[3].
The stock turnover period has increased by one day in the past year, to 19 days. This may be attributable to the fact that the group have a significant in the levels of average stock, due to the increased number of stores. In retrospect the increase of one day is minimal. The group's level of working capital has increased over the past year, which means that there are increasing funds available for the day-to-day handling of the increasing stock.
The group debtor collection period has decreased has increased from 97 days even with an increase in sales. This represents a good debtor collection system and good management. This decrease in the debtor collection period could be attributable for the increase in working capital, which means that there are higher levels of day-to-day capital to run the business.

[3] Append 1 (Pge 4)

The creditor payment period has increased by 2 days from 26-28 days, perhaps due to the higher levels of trade creditors. This coupled with the increase in the debtor collection period would mean that there is more cash available in the business, which would help with it's liquidity. Although this is so, suppliers, if they have not been notified about the increase, may not be happy, as it is taking longer for them to get paid. This increase could either be strategic or could show deteriorating cash flow efficiency.
The slight increase of 0.1 in the current ratio indicates that there is perhaps too much finance tied up in the short-term assets (current liabilities). The slight increase may be due to the significant investments in working capital. The company perhaps has too much capital tied up, which could be used for surplus in their new business ventures.
The gearing of the company has creped up from 20.1% to 27.4%, but the company still has relatively 'low gearing'. The company are using outside debt to help finance the company, as opposed to equity, which would explain the minimal increase in the total number of shareholders. This financing strategy presents obvious risks and pitfalls for shareholders, such as an increase in interest charges. However the interest cover is still very healthy and there is still significant funds available for dividends and reinvestments.
The higher levels of gearing and the financial strategy of using debt rather than equity, has enabled the group to reap improvements in earnings per share. By not increasing the number of shareholders and by using outside finance the company has avoided diluting the number of shareholders, thus resulting in higher levels of profit attributable to existing shareholders.
The higher percentage of shareholders funds is quite significant; it has improved by 3.1%. This means that there is more money available for shareholders, to re-invest.
The dividend per share has improved very minimally, but it still rounds off at 15p per share. By not increasing the number of shareholders drastically, and by using debt for finance the figure has not been diluted.
An improvement in dividend cover & earnings yield shows that the company is retaining more profit for investment projects. They are externally financing the company, which is more expensive and risky than by means of equity.

Looking at the dividends and the P/E ratio as an indicator may be slightly misleading for investors as the company is plowing vast amounts back into the future of the company.
The market confidence has fallen due to the drastic drop in the P/E ratio.
Potential investors who are willing to take a risk, for a higher possible capital gain, should consider investment.
The risk has increased: They are planning for long-term
Re-investing heavily in new projects
Financing with debt, rather than equity
Asset turnover needs to improve, so profits can increase. The need to produce more in less time, perhaps applying a J.I.T system, QM or less substandard goods being produced. The company has risked a lot by externally funding & using much of its profits to finance its new projects.

5 YEAR COMPANY ANALYSIS
(Please refer to Append 3)

The performance of the company over the past 5 years has been mixed. At a first glimpse there would not seem to be any significant trends, however the company has managed to stay in the top 3 supermarkets in its market.
The ROCE was at a 5 year high in 1999 and then drastically dropped, and has been steadily improving since. There seems to be a little bit of stability setting then, the company has shifted more and more towards financing by debt as a means of bringing in extra finance.
A very big cause for concern is the company's asset turnover, it has no consistency whatsoever, and if this can cease to fluctuate and steadily improve ROCE will be more stable.
The company's gearing has steadily increased throughout the 5-year period, but it is still 'relatively low'. The main difference in the accounts of the company over the 5-year period, is an increased use of outside financing, the company has swayed more & more towards debt and away from equity. Also the company has plowed lots of money into re-investment during 2000 and has continued to do so.
Perhaps the extreme investment tactics that Sainsburys have applied this year, into their new range & expansion is an attempt to build some stability into the future of the company. Due to the intense competition in this particular sector and the competitive strategies they use, Sainsburys have sufficed i.e. Asda have a much larger scope due to Wall mart, so they have the size and funding to engage in 'price wars' and various other pricing strategies. Sainsburys know this; they do not have international financial backing. They have made the decision to differentiate in terms of product quality, range and customer satisfaction. Sainsburys are competing with the creation of their new brand; this is the reason for so much investment in the past year. This is the company's way of planning for the future and combating Wall Marts acquisition of Asda.
The Share price of the company over the past 5 years has dramatically fluctuated, at the time of the reports the market didn't really have much confidence in the shares[4]. The share price at the time of the accounts was 202.00, however from investigating the company's reports and recognizing that the company has spent vast amounts on future projects & re-investment for the future, it looks bright. Since the publishing of the accounts 9 months ago, the share price has risen from 202.00 to 289.50.This show what was anticipated, that the market is regaining confidence in the shares once again, looking at the history the company should continue to rise due to it's careful planning and investment.

CASH FLOW ANALYSIS
(Please refer to append 1(Pge 25))

The levels of tax, which Sainsburys are paying in 2003, have increased dramatically; this could be the result of the company's newly adopted strategy of expansion. The increased levels of tax coincide with the increased levels of purchased tangible fixed assets & drop in sales of tangible fixed assets. The company has received a high

[4] See Append 4

inflow of cash from acquisitions & disposals, this possibly being the payments the company is still receiving from the sale of Homebase.
The company's level of current liabilities has decreased. The company's level of issued share capital has decreased, to almost nothing, as the company is trying not to dilute the total number of shareholders. The company has paid the equity dividends and still has money available for re-investment and expansion, along with the companies acquired outside finance. The company has a higher level of debt and tax due to this increased financial investment.
The company is looking to increase the company's level of authorized share capital[5]. The company's gearing is still 'relatively low', but has been increasing. The company's net cash from operations is strong. Working capital absorbed high levels of cash, which is expected with the company's expansion. After paying off equity dividends the company have a healthy figure for net cash flow. The large outflow of cash for investments is partly offset by increased long-term borrowings.
The company is plowing a lot of cash & risk into new projects and ideas. Increased levels of debt are increasing risk, as does the decision not to issue shares for internal financing.

FINAL RECOMMENDATION

Over the past 5 years Sainsburys Plc has been a very volatile company. However, if a potential investor is looking to invest in a company, which is clearly planning for the future, then this is a good company to pick. With the shares not being regarded too highly at the moment due to mixed performance it would be an ideal time to invest, as they are rising all the time. The market is a very stable one, with major expansion between the top 3 being outlawed by the MMC; competition is limited, but very intense. So finally if the investor is seeking a company, which will reap possible high capital gains, along with significant risk, then Sainsburys Plc is an excellent choice.

[5] Append 1 (pge 8)