REPORT FOR YEW LTD OUTLINING THEIR PERFORMANCE THROUGHOUT 2000 AND 2001

TERMS OF REFERENCE

The report is for Managing Director of Yew Ltd and is to show the performance of Yew Ltd from 2000 and 2001. This will give the Managing Director an insight to the business at this current time and hopefully will aid in making judgement as to the future of Yew Ltd.

PROCEDURE

The performance of Yew Ltd will be assessed by using ratio analysis in which the accounts of the business are analysed and commented upon. The main areas that are to be focused upon are liquidity, profitability and efficiency,

FINDINGS

Ratio analysis provides financial representation that is able to aids decision making. The analytical information can be used to compare with previous years to monitor performance.

Ratio analysis allows us to see:

The ROCE is down in 2001 to 34.78% from 50% in 2000. The industry norm for ROCE is about 14% so Yew Ltd are well over that threshold and this is a positive issue but ROCE needs to get back up to 50%. More assets being bought and used means higher capital employed and lower return on capital.

Fixed assets and current assets have increased but profit didn't increase proportionally so capital employed has increased. Capital Employed has risen by £78 (138-64) million. Share capital has also risen by £56 million and this was due to a new issue of shares in the year. Cash reserves are up by £22 million also.

Gross profit margin has increased from just under 56% to just over 57%. This marginal change means sales are contributing to gross profit more effectively as sales have increased.

Net profit margin has also slightly increased from just under 19% to just over 20%. Again higher sales means that more money is contributing to net profit.

The company has expanded in 2001 as shown by the increase in fixed asset and working capital. The use of their assets and profitability ratios has stayed high but absolute profits have not kept up with higher capital employeed.

Current ratio and acid test ratios have improved in 2001 as current liabilities have fallen and current assets have rose considerably. The current ratio for 2001 is now 0.8:1 and for 2000 was 0.42:1 this figure suggests liquidity problems. The industry norm being 1:1.There now is more stocks, more debtors and a small bank balance so the current ratio for 2001 is much closer to 1:1.

Debtors' turnover has increased in 2001 which means Yew Ltd are giving customers more time to pay for their purchases. For 2000 it was 65 days and now for 2001 it is 81 days (nearly 3 months). This credit period should be monitored and debtors should be chased up much sooner.

Creditors in the form of debenture loans have decreased from £10 million to £6 million. This suggests that Yew Ltd are making sure they make payments at the precise time.

Stock turnover is down in 2001 from 1.61 to 1.5. This small fall has an adverse effect on the business as fixed assets have increased but stock turnover has fallen. This is not a good way of managing resources effectively. Stock turnover periods should be monitored for further notice. Gearing is not a problem for Yew Ltd as the ratio of Debt to equity is minimal and has even fallen in the last year.

CONCLUSIONS

Ratio analysis has concluded what the financial side of the business looks like. With liquidity now more flexible, the firm do not have to rely on borrowing as capital is reinvested into the business. Areas of concern are efficiency issues, much tighter control is needed for debtors, getting there payments in as quick as possible and not allowing them to delay. Also stock turnover needs to be pushed, especially after extra fixed assets have been purchased. There is a cash surplus problem but I feel that once the debtors have paid up and are notified of how long their credit terms are then the cash being the life blood of the business will increase. Overall the business looks good.

RECOMMENDATIONS

- Assess credit terms with debtors so that cash payments are paid in sooner
- Monitor stock turnover as a slight fall had occurred in 2001.
- Liquidity issues once resolved will mean better performance for Yew Ltd
- Ratio analysis is only the financial aspects, do not lose sight of the other three functional areas; HRM, marketing and Production.
- Although profitability ratios have held up, absolute profit needs to be improved by examining all areas of the business.