

Report on Bass PLC

We as a group have decided to assess the financial performance of Bass PLC, in the form of a report. Bass PLC has extensive interests in hotels, leisure retailing and branded drinks. It owns Holiday Inn and Inter-Continental Hotels, Bass leisure retail and Britvic Soft Drinks. We have decided to write this report using five main aspects of performance, Profitability, Efficiency, Liquidity, Gearing and finally investment.

In 1997 the group turnover was £5.25 billion pounds, an increase of £145 million pounds from the previous year. This clearly indicates that the group is steadily growing and our first impressions of the group are that it is in a strong financial position. We split profitability into three main ratios. We found that the figures on which the ratios are based may have been distorted by inflation causing an overstatement of profit and an understatement of asset values. For 1997 the return on capital employed was 15.7% an increase of 1.4% from 1996 which stood at 14.3%. We discovered this to be a fundamental measure of the Bass groups performance showing the relationship between the net profit generated and the long term capital invested in the company. The second ratio we consulted for our assessment of the profitability of Bass is the net profit margin which was 11.7% in 1996 but has decreased to 7.0% in 1997. This shows that Bass are trying to operate on low profit margins in order to stimulate sales and thereby increase the total amount of profit generated. Thirdly we have calculated the percentage return on turnover which for 1996 was 8.9% compared to 5.0% in 1997.

Efficiency we have decided to examine as we felt this would show us the ways in which various resources of the company are managed. Firstly we calculated the average settlement period for debtors. In 1996 this figure worked out to be thirty days and likewise in 1997 this figure turned out the same. Therefore this clearly shows that the debtors are paying up on time meaning the company has less risk of getting into bad debt. Bass will prefer a shorter average settlement period than a longer one as once again funds are being tied up which may be used for more profitable purposes. The last thing Bass wants is a select few large customers who are slow payers to distort the figure obtained. To follow on from the settlement period for debtors we decided to calculate how long Bass took to pay their creditors. In 1996 the average settlement period was 48 days then rose by 5 days in 1997 to 53 days. This is in the best interest of Bass however such a policy can be taken too far and can result in a loss of goodwill between Bass and their suppliers. Thirdly we have looked at the companies asset turnover ratio which for 1996 was 0.9 times then increased by 0.1 to 1.0 times in 1997. Generally speaking a higher asset turnover ratio is preferred to a lower ratio. It is in Basses favour to have the asset turnover ratio rising as this shows that assets are being used more productively in the generation of revenue. However a very high ratio may suggest that Bass is over trading on its assets and therefore has insufficient assets to match the level of sales achieved.

Liquidity comes under two main topics which we calculated using the current ratio and also the acid test ratio of the business. In 1996 the difference between the current assets and the current liabilities worked out to be 0.9 times whereas in 1997 it rose by 0.2 to 1.1

times. Therefore these ratios show clear problems with liquidity. In some texts the notion of an ideal current ratio is usually two to one. However we found that different types of business require different current ratios. In 1996 they did not have enough money to pay their creditors. This is shown on the balance sheet as the current assets is less than the creditors. The net current assets are therefore shown as liabilities. In 1997 the situation is reversed and the company did have enough money to pay its creditors. This is also shown on the balance sheet as the current assets are more than the amount of money that they owe. Secondly we calculated the acid test ratio as we felt that this ratio represented a more stringent test of liquidity. In 1996 the acid test ratio worked out to be 0.7 times and in 1997 1.0 times. We detected that it is not usual for the ratio to be below 1.0 and therefore in 1996 the company had clear liquidity problems, as the liquid current assets did not quite cover the current liabilities.

We decided to mention a little bit about gearing as the gearing ratio for Bass would show us the contribution of long term lenders to the long term capital structure of the company. The ratio worked out to be 40.6 % in 1996 which we felt that this level of gearing would normally be considered to be very high. In 1997 it fell to a more realistic percentage of 34.2%.

Finally we move onto the investment aspects of the company. The dividend per share ratio for 1996 was 15.9p and then rose to 17.6p in 1997. We felt a number of factors would influence the amount the company is prepared to issue in the form of dividends to shareholders. These would have included cash availability, future commitments and investor expectations. Secondly we studied the dividend pay out ratio which would give us an idea of the proportion of earnings which the company pays out to shareholders in the form of dividends. We noticed that there had been a dramatic increase from 1996 to 1997. In 1996 the dividend pay out ratio was 64.2% then increased to just under double that amount to 33.6% in 1997. The share holders turnover is up but the profit is down. There are special circumstances for that, we found three in total. The disposal of Carlsberg and Tetley PLC, the termination of operations and also provision for diminution in asset values. Ordinary dividends rose from 25 pence per share to 27.5 pence per share this was supported by an increase in the earnings per share from 50.4 to 55.5 in 1997.

Relating the points we have covered previously we have found that ratios can be used to analyse various aspects of the position and the performance of a business. Although, we found that if the information published is not as revealing as required, it is very hard to calculate certain ratios. Ratios are useful as they can highlight certain strengths and weaknesses of the company but they fail to identify the underlying causes. Bass PLC on the whole is a strong and profitable company but as all companies do we found it to have some weaknesses as stated in the report. Although these ratios give a good indication of performance, we found that looking at many of the figures and comparing them to the previous year give us equally as good an impression in the same areas. We have also concluded that no company is one hundred percent efficient no matter how good the management is. Basses bank account has risen from 72 million in 1996 to 143 million in 1997, this was mainly due to an increase in major disposals. Well it can be seen Bass

PLC is in a strong financial position and look set to continue efficiently well into the next millennium.