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Impact of Financial Analysis on Performance in Industrial Sector in British on Social Responsibility in Corporate

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Abstract:

The aim of this paper is to perform an analysis of the financial position, performance, social and corporate responsibility, SWOT and valuation of the two companies McBride plc. &, Headlam Group is British flooring company.

The financial analysis, that shows that Headlam group Plc is performing much better than the McBride Plc. Further, on conducting the SWOT analysis, it was found that there has been a decline in the market share of McBride Plc with the increase in restructuring and reorganising cost. On the contrary, to this, the Headlam Group Plc has the obsolete equipment and weak brand portfolio.

Keywords: perform, profitability, Market share

Introduction

- **Overview**

The main objective of any business is to maximise the wealth of shareholders investing in it. This could be done by developing any business with proper planning by including financial analysis in its business plan. The business plan consists of the company's organisational, financial and marketing strategies. Financial analysis is the process of evaluation of a business using information from financial statements and reports, accounting ratios and other sources of information to compare against past performance of the business or competitors' performance (Accountingtools.com, 2016). It is helpful in determining market position of the business and outline future goals providing space for further improvements. It also helps the business to improve its profitability, value and cash flow. It is a necessary tool for any business to establish investment, financing and dividend policies (Fridson and Alvarez, 2011).

SWOT analysis helps to evaluate the environment in which a business operates. It helps in analysing the strategic capabilities of the business enterprises and provide outline about their service' description (Helms and Nixon, 2010). Furthermore, it helps in evaluation of strengths and weaknesses of the opportunities and threats prevailing in the business of their respective industries. SWOT analysis is one of the most respected and the highest ranked analysis technique used in strategic planning, which helps in understanding how new opportunities can be achieved through existing strengths and how weaknesses slow progress or magnify threats of the business. When these two techniques are combined, it would be easy for the researchers to create a solid base for determining the position of the business and what lays for them in future (Böhm, 2009).

The aim of this report is to perform an analysis of the financial position, performance, cash flows, social and corporate responsibility, SWOT and valuation of two companies from FT UK 500 index ranking OF 2017- McBride plc and Headlam Group- from household goods and home construction industry.

- **About Companies**

McBride plc is a British manufacturing company providing services in the household and personal care products. It was established in 1927 in Manchester and produces brands such as Oven Pride, Sensei, Fish Stick, Surcare, Gentelle and Limelite and also provides contract manufacturing for other brand owners. It is listed in London stock exchange and is a part of FTSE SmallCap Index. The group is the biggest maker of household products whole over Europe with a profit of over £800m up to 2012 acquired through growth and acquisition. Moreover, the company has over 20 manufacturing operations in various European and Asian countries (Garvey, Stokes and Megginson, 2014). Headlam Group is British flooring company which distributes floor coverings constructions in Europe. It was established in 1992 at Birmingham and is also listed in London Stock Exchange where it was once a part of FTSE 250 Index. It supplies floor coverings like carpets and parquet to independent retailers in international markets of France, Netherlands and Switzerland (Whiteside and Forsyth, 2012).

- **Business Sectors**

The household industry comprises production of goods and products for consumption within a household. They consist of companies engaged in the manufacturing of non-durable goods. They are a significant part of the economy of any country as it helps in increasing supply of services via import and export. They are mostly conglomerates that satisfy a broad customer base. They come under defensive investments and perform well in good times (Turner, 2014). The industry is mature in nature and sales, and earnings streams are relatively steady throughout the business cycle. This industry is expected to reach an estimate of $664 billion by 2020, and with the improvement of lifestyle and income level among the people, there has been a significant increase in growth opportunities in this market (Salvatore, 2016).

Flooring industry is a part of the home construction industry which includes laying materials to cover the floor using carpets, tiles, vinyl, parquet and laminate. This sector is driven by innovations and new trends in floor designs due to which this industry is highly competitive (Geary and Sorrell, 2012). The advent of several new technologies and the increasing use of specialised machinery have led this field to change beyond recognition. The favourable thing for this industry is that construction materials are available in plenty and low-maintenance required. Flooring industry is booming lately and occupies 50% of overall market share by 2020 (CTI Reviews, 2016).

- **Aim and Objectives**

1. **Aim**

To analyse the financial and operating performance of two companies operating in financial sector

2. **Objectives**

- To evaluate financial and operating performance of McBride plc and Headlam Group
- To perform and study financial analysis of both companies
- To perform SWOT Analysis to have comparison between both companies

- **Structure of Study**

The structure of report includes following parts:

1. **Introduction**

This section is the brief overview of the two companies- McBride plc and Headlam Group. Moreover, aim, objectives and research question would be provided by the researcher to define the path to arrive at the result of this topic.

2. **Literature Review**

It is the review of relevant theoretical and empirical research which should be developed comprehensively so as to understand the background problem. It would discuss different sides of SWOT analysis as well as financial analysis, corporate and social responsibility strategy of companies.

3. **Study**

This section comprises the financial analysis of the two companies by using their balance sheets to determine their efficiency, capital structure, cash flows, and corporate social responsibility to provide detail study by the researcher.

4. **Discussion**

The discussion part includes all findings found in the SWOT analysis of the two companies, and then these finding would be discussed to comment on the performance of two companies.

5. **Conclusion**

This section is the final part which would relate the finding of the original problem statement and literature review. This would be followed by a brief summary of the given report, and future recommendation would be provided for this research.

- **Hypotheses**

H1: There is a positive relationship between Performance in Industrial Sector in British and Social responsibility in corporate

H2: There is a positive relationship between Social responsibility in corporate and the competitiveness of Industrial Sector in British

H3: There is a positive relationship between Performance in Industrial Sector in British and Social responsibility in corporate and liquidity.

- **Methodology**

The methodology of this paper used SWOT and valuation of the two companies McBride plc. &, Headlam Group is British flooring company, to compare the financial position, performance, social and corporate responsibility.

Literature Review

1. Introduction

This section will discuss different types of analysis, which will be conducted in the study. First, there would be some discussion on SWOT analysis with emphasis on advantages and disadvantages of the given topic. Next, financial analysis of financial statements as well as corporate and social responsibility strategy for the topic would be discussed. A major part of the section would be devoted to discussion of industries in which McBride plc and Headlam Group conduct their operation.

2. List of Analysis

2.1.1: SWOT analysis

SWOT analysis stands for strength, weakness, opportunity and threats. This analysis evaluates these four elements for an organisation, business venture or any project. It can be carried out for any company, person, product or industry (Helms and Nixon, 2010). It helps to provide a specification to the objectives and helps the business in identifying internal and external factors which might be favourable or unfavourable to achieve the given objective (Ferrell and Hartline, 2012). It helps to evaluate the environment which would be favourable for operation the business. It helps in devising strategic capabilities faced by the company through the description and analysis of strengths and weaknesses of the business and opportunities and threats it possessed as conveyed by Coman and Ronen (2009).

On the other hand, SWOT analysis has a number of serious drawbacks, which must be taken into account by the researcher while conducting the study. Mullins (2010) provided various limitations associated with SWOT analysis one of which is its highly subjective nature which reflects the bias of the individual who is collecting data which is not much reliable, relevant and comparable. Another is its ambiguous nature due to which each attribute is seen as having only one influence on the problem which is to be analysed (Rangan, Chase and Karim, 2012). Furthermore, incomplete analysis and absence of actual possible strategies and much more which lead the researcher for getting inaccurate results. Ferrell and Hartline (2012) suggested four criteria prepare the strength and weakness of any working of any business enterprises. They mentioned that content in the analysis should be concise to limited numbers; actionable to immediately provide goals; significant enough to have a serious impact on company's value and should be authentic to provide actual information based on real data.

2.1.2: Financial Analysis

Financial analysis is the process of evaluation of a business using information from financial statements and reports like income statement, balance sheet and cash flow statement and should include accounting ratios and other information sources to compare against business' past performance or competitors' performance so as to determine the position of the company in the market, its future prospects and suitability for investment in the company by investors (Wood, Sangster and Wood, 2012).

2.2: Household Goods and Flooring Industries

2.2.1: Household Goods Industry

Household goods comprise a wide range of goods for personal and commercial consumption, including household and industrial cleaning supplies, cosmetics, batteries, light bulbs, razors, and soap and other detergents, personal care and much more. Household and personal care products companies operate across the globe and serve both international as

well as domestic customers. Companies related to this industry sell their products to mass merchants, club stores, grocery stores, distributors, e-commerce retailers and drug stores. Industry operators compete heavily on product quality, brand awareness, performance, packaging and price (Stolle and Micheletti, 2013).

2.3: McBride plc and Headlam Group

2.3.1: McBride plc

McBride is the Europe's leading provider of household and personal care products and marketing it through selected channels and markets. The Group has well-established market positions in all of Europe's major economies and supplies its products to a very wide range of customers which includes all of Europe's leading retailers. The principle of its business model is to-"deliver sustainable profit streams to permit appropriate investment in assets to retain its leading position in the industry and deliver earnings growth to shareholders" (McBride, 2017). This has been represented in diagram;

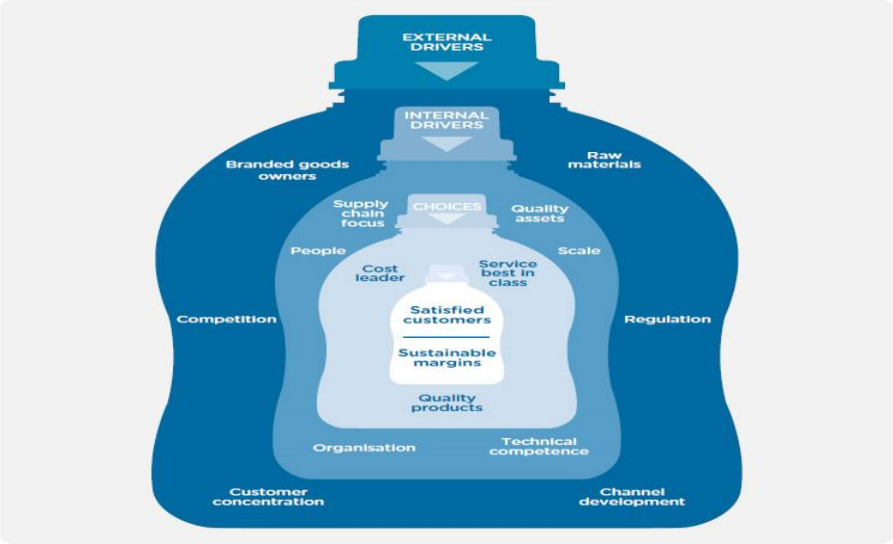


Figure 1: Business Model of McBride PLC
(Source: McBride, 2017)

As it has a sale of almost €1billion, it has significant impact whole over the Europe and also provides benefits to its employees who are evident in the form of employment to more than 5,000 people across the UK with payment of salaries which spends over £130 million for them (McBride, 2017). According to the financial report of the company for 2017, group revenue was £360.6 million in 2016 with 4.8% higher than the previous year. However, sales were lower by 7.2% and personal care by 6.2% than 2016. Based on adjusted operating profit, the improved profitability levels led to an improved return on capital employed ratio (ROCE), with the measure rising to 28.0%, which was greater than 2015 (23.6%). The yearly profit improvement reflects cost saving initiatives, either in overheads or from structural buying improvements (McBride, 2017).

2.4: Summary

There has also been some discussion on the operation and revenue generation of the two companies- McBride plc and Headlam Group. Both the companies are performing well in their respective fields and have become a leader in their sector not only in the UK but also across the whole of Europe.

Study:

1: Introduction

In this part of the chapter, the financial position and performance of the two companies Mc Bride Plc and Headlam group are studied using the annual reports. The data is collected from the site of the company and the annual reports from 2012 to 2016 have been referred to collect the data for the purpose of analysis and evaluation.

2: Ratio Analysis

2.1: Liquidity Ratios

Current ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio helps the company in analysing whether the company has enough assets to pay off the liabilities or not. The current ratio which is acceptable is 2:1, but it varies from industry to industry. The high current ratio of the organisation indicates that the company has sufficient assets through which it can repay its debt. However, if the current ratio is below 1 then it is the sign of alert for the organisations as they may face problems in paying off the expenses and bills on time in most of the cases.

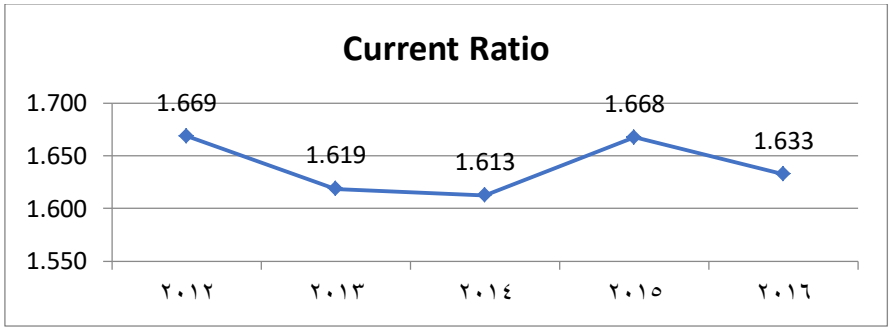


Figure 2: Current Ratio of Headlam Group Plc

The current ratio of Headlam Group plc was always higher than 1 which is a good indicator. The current ratio of the company indicates that the company has sufficient assets to repay off its debt over the business cycle. The current ratio of the company was at its peak in the year 2012 and 2015. The ratio was 1.669 and 1.668 respectively. The ratio of the company declined to 1.619 in 2013 which further declined to 1.613 in 2014. After that, the ratio again increased in 2015.

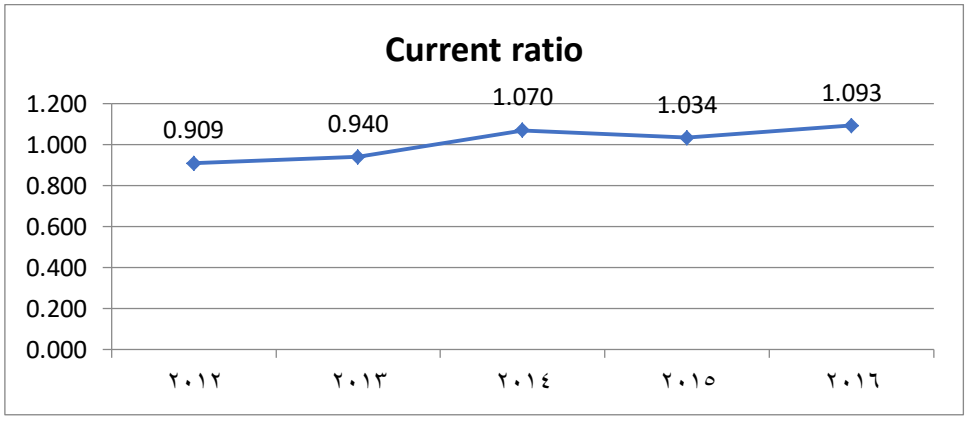


Figure 3: Current Ratio of McBride Plc

From the above graph, it can be said that the operational efficiency of McBride Plc is continuously improving. In 2012 the current ratio of the company was only 0.909 which increased to 1.093 in 2016. From the year 2012 to 2016 the current assets of the company are continuously increasing, and the liabilities are continuously decreasing. Moreover, in 2016 the proportionate increase in currents assets is more as compared to that of current liabilities. This is a good sign as it indicates that the company is heading towards the more secure position.

Acid test ratio

$$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Laibilities}}$$

This ratio is also known as a quick ratio, and it measures the short-term liquidity of the company. The ideal quick ratio is 1:1. It is the ratio which indicates that how quickly the assets of the company can be converted into cash so as to cover the current liabilities.

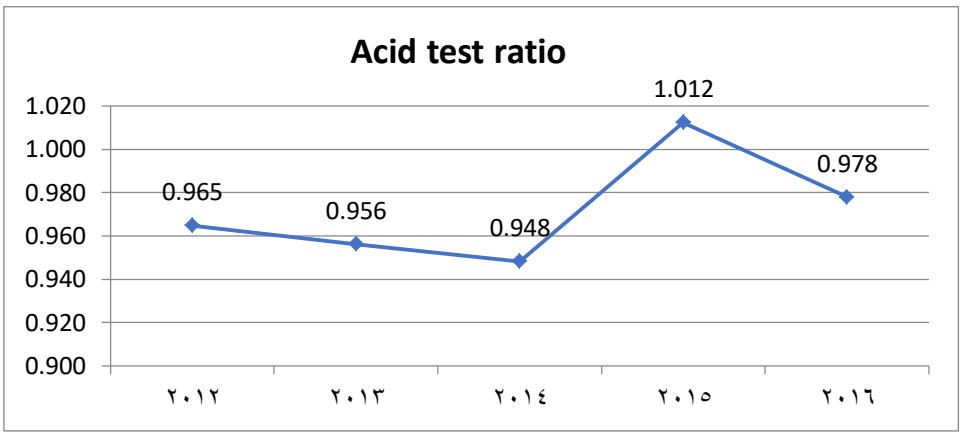


Figure 4: Acid Test Ratio of Headlam Group Plc

The acid test ratio of the company is fluctuating. The ratio of the company in 2014 was 0.948 which is lowest when compared with remaining four years. This is because in 2014 the liabilities of the company was increased and its current assets declined in comparison to 2013. However, in 2015, the ratio of the company was increased to 1.012. Thus it can be seen that the company has achieved the ideal quick ratio of 1:1 through increasing current assets. Also in 2015the proportionate increase in the assets more than that of a proportionate increase in inventories. This indicates that in 2015 the company had sufficient liquid funds to pay off its short-term debt. In 2016 the ratio again declined to 0.978 as the proportionate increase in current liabilities was more than that of quick assets. Further, it can also be seen that in 2016 the inventory of the company also increased when compared to the remaining four years.

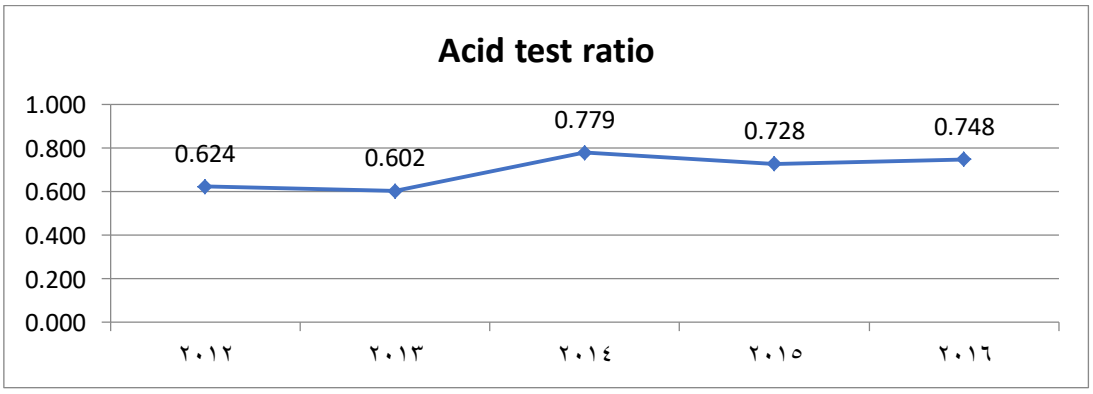


Figure 5: Acid Test Ratio of McBride Plc

The acid test ratio of McBride Plc in 2014 was highest and in 2013 was lowest that is 0.779 and 0.602 respectively. Further on looking at the figures it is seen that the assets of the company are continuously increasing and its liabilities are decreasing. The increasing trend in the acid test ratio of McBride indicates that the company is increasing its quick funds so as to safeguard the company from any unforeseen problems that can arise in future and the company faces difficulty in order to pay off its current liabilities. Moreover, the proportionate increase in assets was more in 2014 as compared to the other years. Thus it can be interpreted that efficiency of the company is improving. However, efforts are required from the side of the company to reduce its liabilities.

2.2: Profitability Ratios

Gross Profit margin ratio

$$\frac{\text{Net sales} - \text{Cost of goods sold}}{\text{Net Sales}} \times 100$$

The gross profit margin ratio analyses that whether the company is able to sell its inventory at a profit or not. The inadequate gross profit margin will indicate that the company is inefficient in meeting its operating expenses.

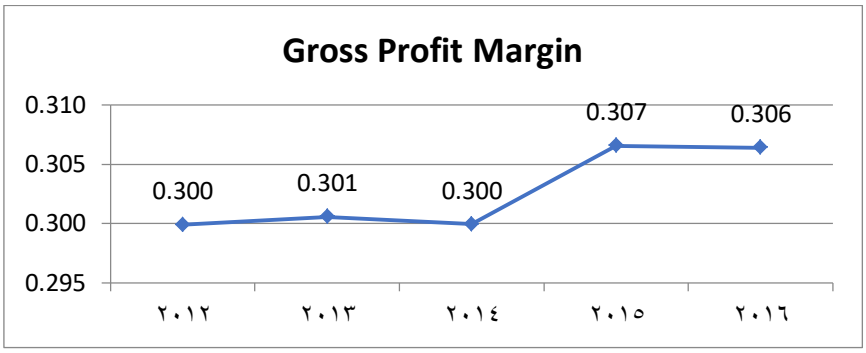


Figure 6: Gross Profit Margin of Headlam Group Plc

The gross profit to sales ratio of the company was stable during the five years with an average of 30 percent. In 2012 company's sales were 585984 which further increased to 693572 in 2016 that is there has been 18.36 percent increase in the sales of the company during the period of five years. Similarly, the profits of the company are also increased. In 2012 the gross profit of the company was 175733 which was increased to 212504 in 2016 that is there has been approximately 20.92 percent increase in the gross profit of the company. However, the proportionate increase in sales and gross profit was approximately similar in all the five years. Thus it can be said that the company has to change its strategies and should deal properly with it vendors so as to reduce its cost of goods sold in order to become more efficient and have economies of scale.

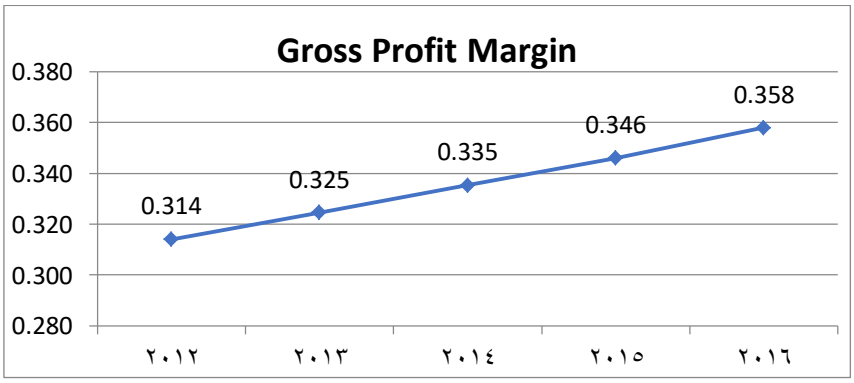


Figure 7: Gross Profit Margin of McBride Plc

There has been an increasing trend in the gross profit margin ratio of the company during the period of five years. In 2012 the sales of the company were 813.9 which further reduced to 680.9 in 2016. This means that the sales of the company are decline by 16.34 percent during the period of five years. Further, the gross profit of the company in the year 2012 was 255.6 which decreased to 243.8. Therefore it can be said that the gross profit is decline by only 4.61 percent in comparison to the sales of the company. Thus it can be said that the company has reduced its production but is also following the efficient sales strategy thereby the profit margin of the company is increasing.

Net Margin ratio

$$\frac{\text{Earnings after tax (EAT)}}{\text{Net Sales}}$$

The net profit margin ratio helps in analysing the costs of the company and whether these are controlled or not. While calculating net profit margin fixed cost of the company are also included so as to get the net results. Further net profit margin ratio of the company is dependent on the pricing strategies and policies of the companies. The high-profit margin indicates that the company is performing better and its pricing strategies are efficient enough to convert the sales into profit.

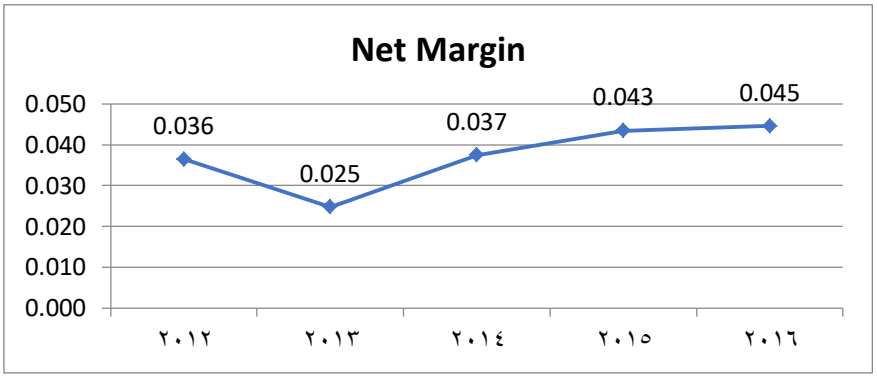


Figure 8: Net Margin of Headlam Group

The net profit margin of the company in 2013 was 0.025 which was lowest in comparison with remaining four years. However, the net margin ratio has shown an increasing trend after 2013. The ratio got increased to 0.045 in 2016 that is there has been the increase of 25 percent in profit during five years. Thus it can be said that company is performing better and is continuously trying to improve its operations.

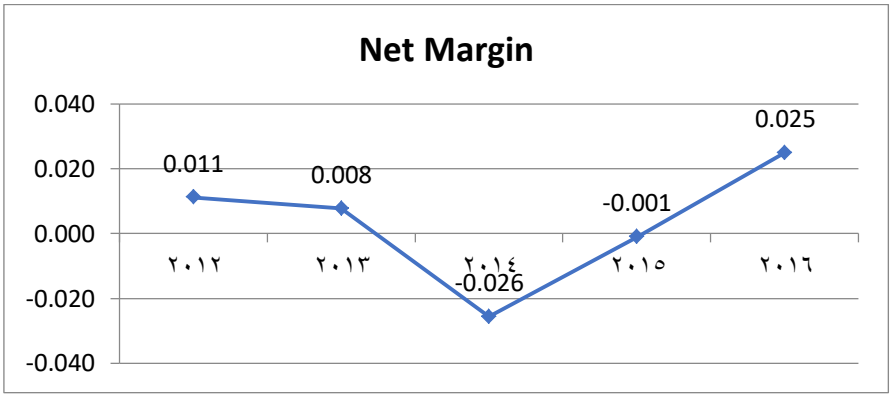


Figure 9: Net Margin of McBride Group

The net profit margin of the company has shown the declining trend from the year 2012 to 2015. In 2012 the ratio was 0.011 which declined to 0.001 in 2015 that is the ratio of the company got declined by 90.9 percent. The company is facing losses, and in 2014 the ratio declined to -0.026. After this, in 2016 there has been a sudden increase in the net margin ratio of the company. In 2016 the ratio increased to 0.025 that there has been a sudden increase in the net profit margin ratio by 26 percent. However, the overall increase in the net margin ratio during the five years was 1.27 percent. Thus it can be interpreted that the company is running in losses and this is because of the increased operating and restructuring costs of the company.

2.3: Efficiency Ratio

Efficiency is defined as the ability of the company to utilise the resources properly so as to minimise the wastage. Efficiency affects the profitability of the company. There are mainly three types of efficiency ratios. These are inventory turnover ratio, accounts receivable turnover ratio and accounts payable turnover ratio.

Inventory turnover in days

$$\frac{365}{\text{Inventory Turnover ratio}}$$

Inventory turnover in days ratio measures the time taken by the company in converting the inventory into sales.

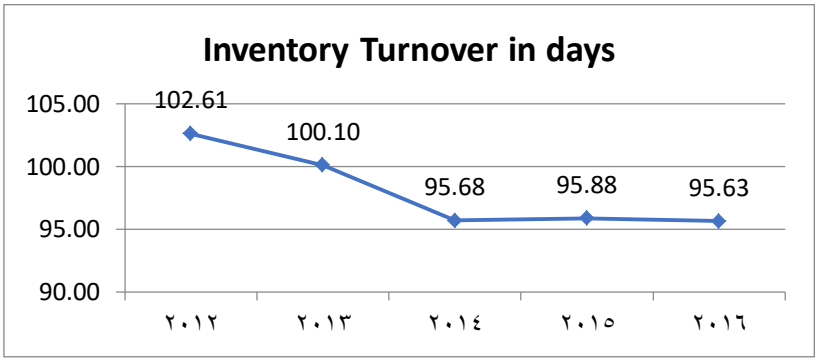


Figure 10: Inventory Turnover in days for Headlam Group

The decline in the inventory turnover in days is the good sign for the company. This means that the company is quickly converting its inventory into sales thereby increasing the liquidity. In 2012 the inventory turnover in days was 102.61 days which was reduced to 95.63 days in 2016 which is lowest when compared with remaining years.

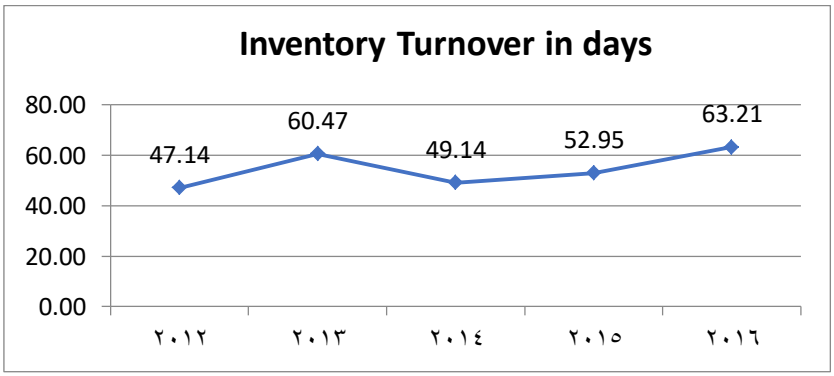


Figure 11: Inventory Turnover in days for McBridge Plc

There has been an increase in the inventory turnover in days of the company. This is not the good sign for the company as this means that the inventory is not being converted into sales easily by the company. In 2012 the inventory turnover in days was 47.14 which increased to 60.47 in 2013 and then to 63.21 in 2016.

Accounts receivable turnover ratio

$$\frac{\text{Net Credit Sales}}{\text{Average accounts receivable}}$$

Accounts receivable turnover ratio measures the ability of the company to collect cash from its debtors during the particular period. The ratio indicates that how many times the company is able to convert its receivables into cash during particular period. The high accounts receivable ratio is a good sign for the company as it indicates that the company is able to frequently collect money from its customers to whom goods are sold on credit.

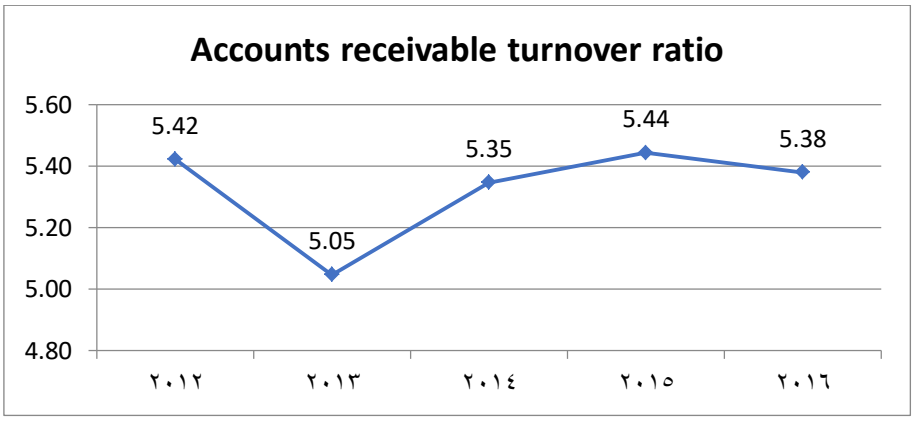


Figure 12: Accounting receivable turnover ratio for Headlam Group

In 2012 the accounts receivable turnover ratio was 5.42 which got declined to 5.05 in 2013. This is not the good sign for the company as the decrease in ratio means that company is not frequently collecting its money from debtors thereby reducing the efficiency and liquidity. However, in 2014, there has been a sudden increase in the ratio, and it has increased to 5.35. This further increased to 5.44 in 2015. This means that the company is making efforts and changing its strategies so as collect cash from its debtors. In 2016 the ratio again declined, but the proportionate decline in comparison to 2013 was less. Thus it can be said that it is very important for the company to have a stable policy so as to convert its debtors into cash easily and thus thereby improving the liquidity.

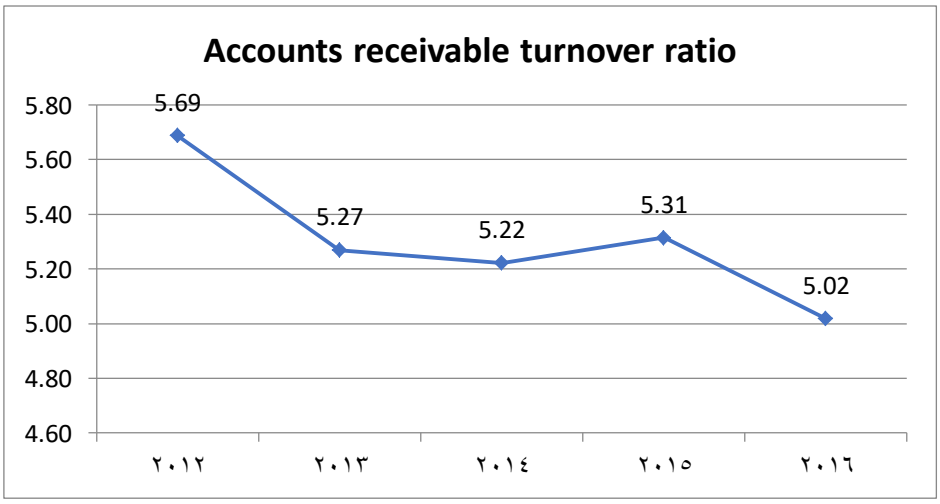


Figure 13: Accounts receivable turnover ratio for McBride PLC

Accounts receivable ratio of the company has been declining. In 2012 the ratio was 5.69 which was further declined to 5.02 in 2016, and it was lowest in comparison to the remaining years. This is not the good sign and means that the company is not able to convert it debtors in cash frequently and easily. Therefore it can be said that this, in turn, is reducing the efficiency and liquidity of the company.

Accounts receivables turnover in days

$$\frac{365}{\text{Accounts receivable turnover ratio}}$$

This efficiency ratio helps the company in determining the number of days in which it is able to collect money from its debtors. It is the ratio which indicates how much time the client of the company takes to their bills. A high ratio is not preferable as it indicates that the credit policy of the company is not reasonable and it decreases the liquidity.

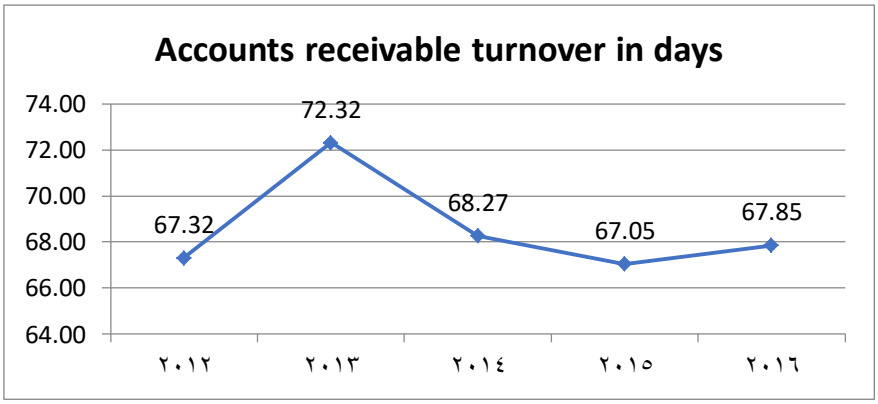


Figure 14: Accounts receivable turnover in days for Headlam Group

In 2013 the accounts receivable turnover in days was 72.32 which was the highest as compared to the remaining years. This indicates that in this period the credit policy of the company was not reasonable. After 2013 there has been declining trend and the number of days in 2016 was 67.85 days. This is the good sign that the company is trying to improve its credit policy and further trying to improve liquidity through collecting accounts receivables.

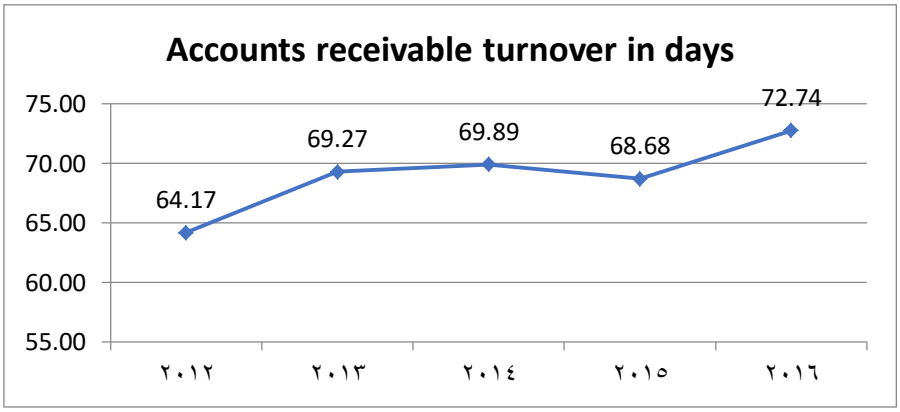


Figure 15: Accounts receivable turnover in days for McBridge PLC

There has been an increasing trend in the number of days of accounts receivables. In 2012 the number of days was 64.17 which increased to 72.74 in 2016. This indicates that company needs to work on its credit policy as it is not reasonable. The increase in the number of days means that the company is unable to timely collect money from its debtors thereby affecting efficiency and liquidity of the organisation.

Accounts Payable Turnover Ratio

$$\frac{\text{Net Credit Purchases}}{\text{Accounts payable}}$$

Accounts payable turnover ratio is also known as creditor's turnover ratio or creditor's velocity. This is the metric that evaluates the company's capacity to pay off its creditors and vendors. It is measured on how many times a company pay its suppliers during a particular period of time. The ratio must not be too high or too low, as higher the ratio the paying back is too early, i.e., credits have not been enjoyed till one needed. If the ratio is too low, that means we have not paid the creditors for long which is not a healthy business sign. The ratio is also seen by the suppliers to know when their supplies would turn to cash.

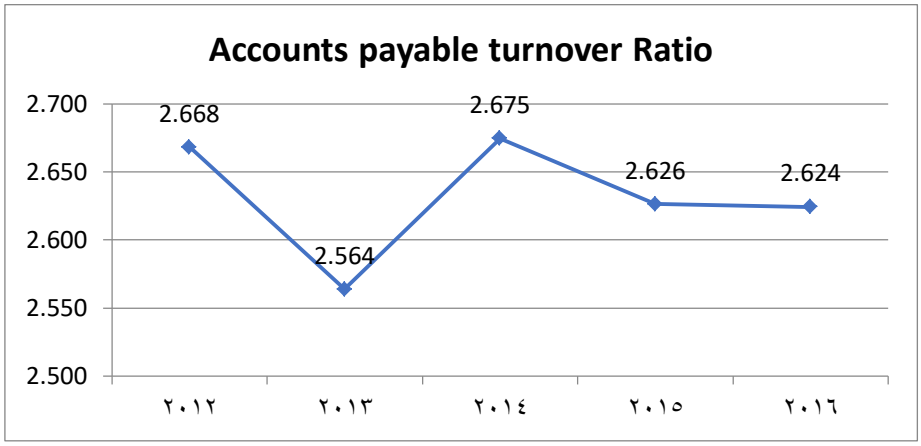


Figure 16: Accounts payable turnover Ratio for Headlam Group

In the years 2012 and 2014, the ratio was the highest and was around 2.67 and 2.68. In 2013 the ratio declined to 2.564 which was lowest when compared with other years. The decline was due to decline in its net purchases and increase in the accounts payable. After being highest in 2014, it again sloped down to 2.6 in 2015, further been approximately same in 2016. Thus from the decreasing trend and fluctuations in the ratio, it can be interpreted that the company is continuously changing its policies which are related to the payment of creditors.

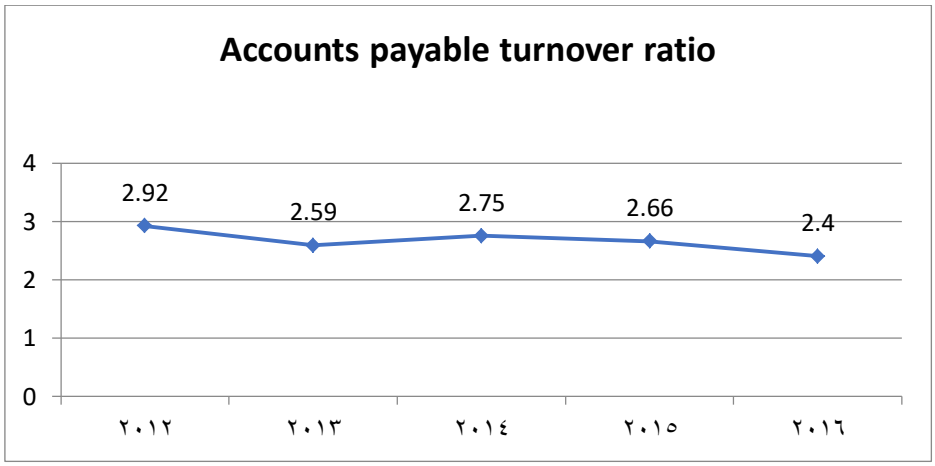


Figure 17: Accounts payable turnover Ratio for McBridge PLC

The Ratio for the accounts payable turnover ratio for McBride Plc is highest in 2012 that is 2.9. This is decreasing to 2.59 in 2013. The ratio slightly moves upwards to 2.75 with again a decline to 2.66 and 2.4 in the consecutive years. The graph tends to show a constant downward sloping trend for payables. Thus it can be interpreted that the company had slowed down in paying off its bills.

Accounts Payable Turnover in days

$$\frac{365}{\text{Accounts payable turnover ratio}}$$

The ratio calculates the company's paying capacity to its creditors in a number of days. This ratio helps in determining that in how many days the company can pay to its suppliers. Not too high or too low ratios are appreciated for it. This efficiency ratio shows the company's efficiency to deal with the payables.

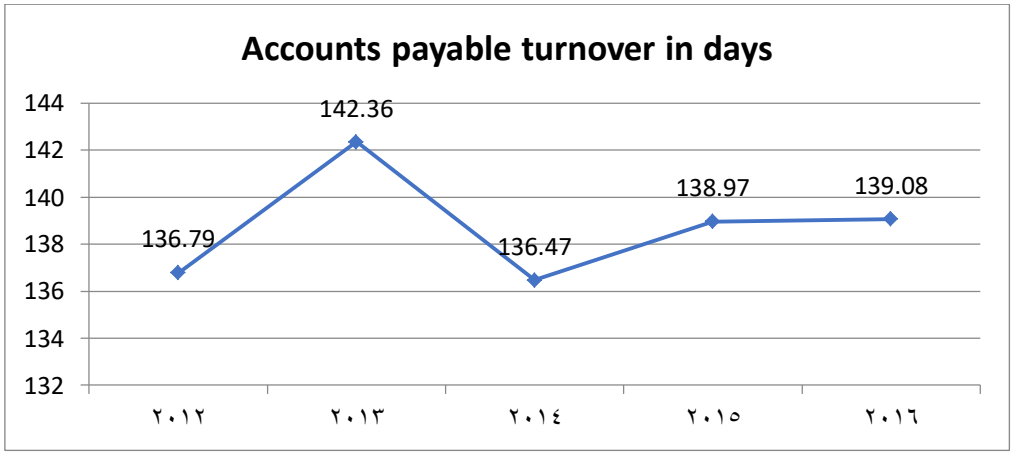


Figure 18: Accounts payable turnover in days for Headlam Group

The Payable capacity of the Headlam group Plc was the highest in 2013 of around 142 days. The lowest was in 2012 and 2014, which was approximately 137 days with a very slight change in both the years. It again increased in 2015 and 2016 to approximately 139 days.

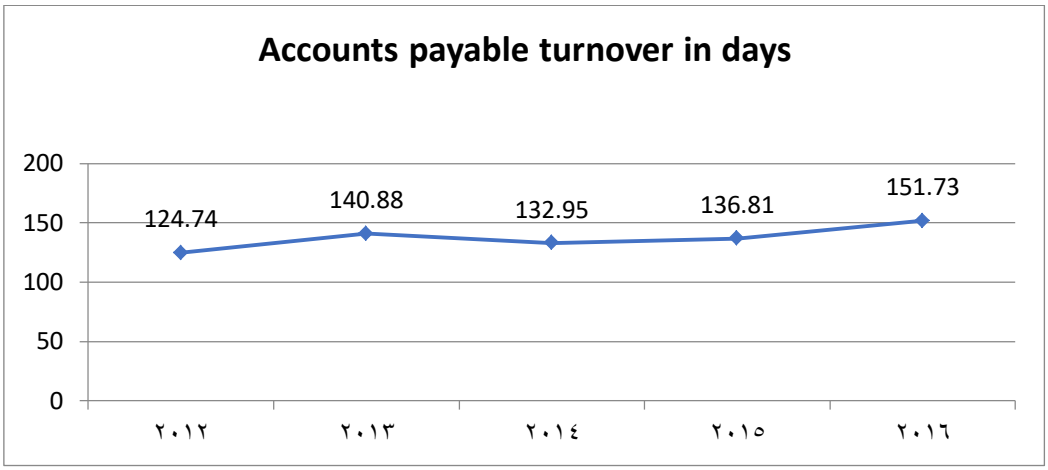


Figure 19: Accounts payable turnover in days for McBridge Plc

The McBride Group's payable capacity is showing an upward trending chart from 2012 to 2016. It was about 124 days in 2012 and showed growth in 2013 to 140 days. The graph moved downwards from 140 days to 132 days payable capacity for the year 2014. With again an increased capacity to pay to the creditors, it moved to 137 days and 152 days in 2015 and 2016, respectively. Thus it can be interpreted that the company is paying off its debt quickly.

2.4: Solvency Ratio

A measure used to interpret an institution's propensity to converge its debts and other responsibilities are known as the Solvency Ratios of the company. The ratio indicates the company is sufficient in cash flow to pay its long term debts in order to meet the short-term and long-term

liabilities. The ratios included under the solvency ratio are the debt-equity ratio and the interest coverage ratio.

Debt – Equity Ratio

$$\frac{\text{Total Debt}}{\text{Total Shareholder's Equity}}$$

The finances of the company that are being raised through debt to the proportion of the company's assets are called as a debt-equity ratio. This ratio indicates the firm's long – term financial soundness. The relationship between the Debt and the Stakeholder's of the company is analysed by this ratio, which is the External-Internal Equity ratio. Here, 1:1 ratio is considered to be satisfying for the company, which means the debt and the equity are in equal proportions. This implies that a company has been less aggressive in financing its growth along with debt and has saved itself from financial distress as earning and borrowed costs are at par.

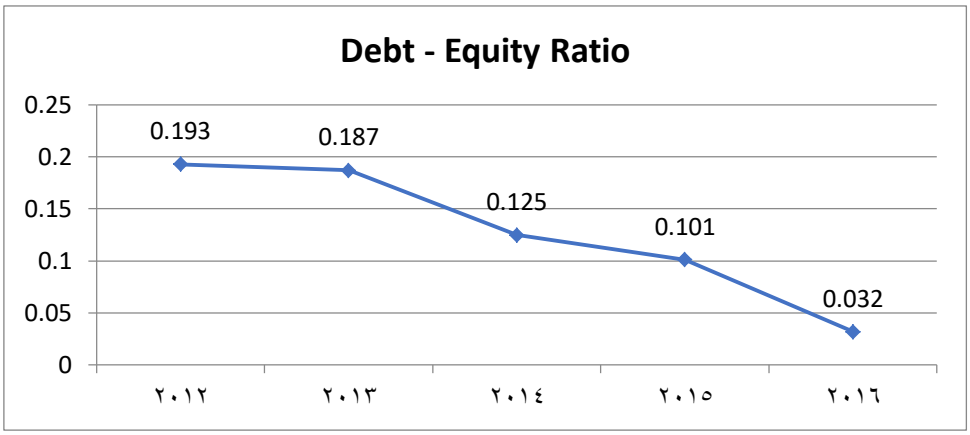


Figure 20: Debt - Equity Ratio for Headlam Group

There has been declining trend in the debt-equity ratio of the company. In 2012 the ratio of was 0.193 which declined to 0.032 in 2016. Thus it can be said that the company is paying off its debt and is sourcing its funds from equity shareholders instead of to debt holders.

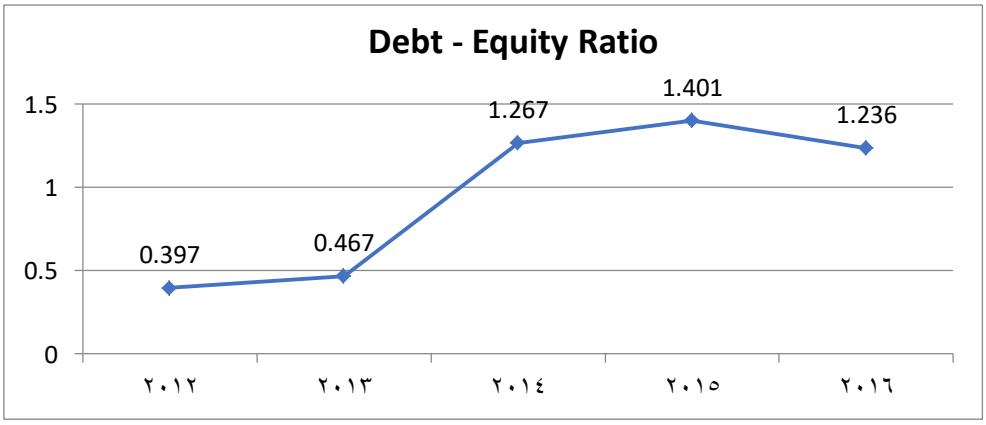


Figure 21: Debt - Equity Ratio for McBride Plc

There has been an increasing trend in the debt-equity ratio of the company. In 2012 the debt-equity ratio of the company was 0.397 which increased to 1.236 in 2016. In 2014 the ratio was 1.401 which was highest when compared with the remaining years. Thus it can be said that the company is issuing more of debt for financing its activities.

Interest Coverage Ratio

$$\frac{\text{Earnings before interest and tax}}{\text{Interest Expenses}}$$

The ability to pay the interests of the company for a specific period, generally a year is known as the Interest Coverage Ratio. The lower the Interest Coverage ratio, the higher is the burden of debt and higher is the chances of bankruptcy. It shows lesser earnings are available to meet out the payments of the interest. A higher ratio is preferable to meet the company obligations. It is considered that if the ratio is 1.5 or less, the ability to pay interests are doubtful and if it is less than 1, it means the company is not having funds to pay off the interest expenses.

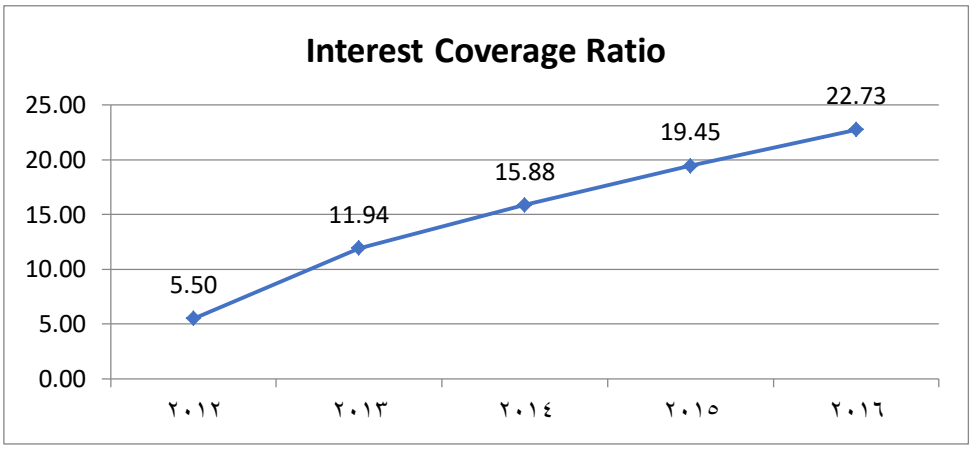


Figure 22: Interest Coverage Ratio for Headlam Group

There has been an increasing trend in the interest coverage ratio of the company. In 2012 the ratio was 5.5 which increased to 22.73 in 2016. Thus there has been an increase of approximately 300 percent in the interest coverage ratio. This means that the company is earning profits and is easily and quickly paying off its interest expenses.

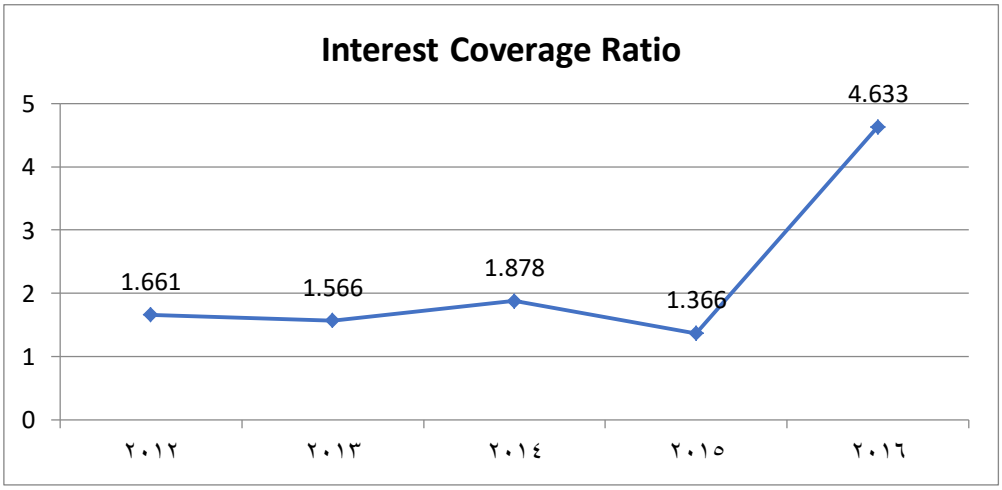


Figure 23: Interest Coverage Ratio for McBride Plc

The interest coverage ratio of the company was fluctuating. In the year 2012, the ratio was 1.66 which declined to 1.365 in 2015. This means that the company does not have enough cash to pay off its interest expenses. However, the ratio got increased to 4.633 in 2016. Thus it can be said that the company needs to work on improving its liquidity and efficiency.

Earnings per Share (EPS)

$$\frac{\text{Total Earning}}{\text{Outstanding Shares}}$$

EPS is a portion of the profit of the company which is allocated to each outstanding share of the common stock. EPS is an indicator of a company's profitability. It reveals about the financial health of the company. High EPS is a good sign for any company.

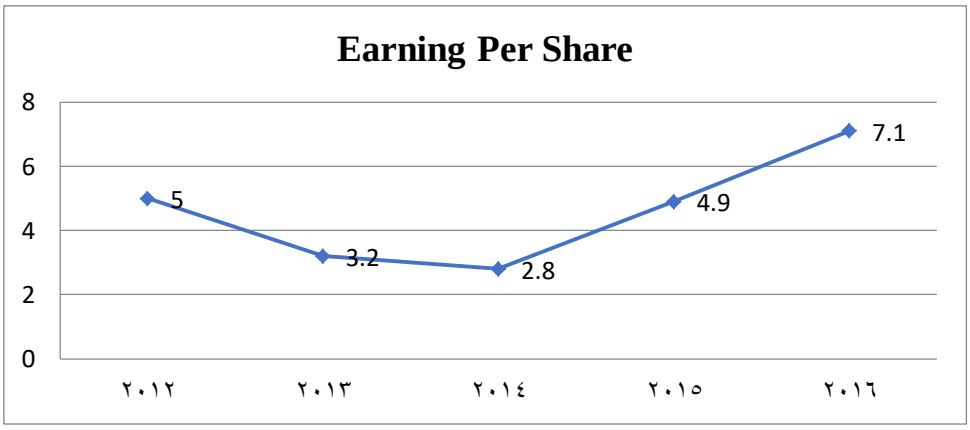


Figure 24: EPS for McBridge Plc

The EPS for the company McBridge Group displayed that it decreased from 5 pence in 2012 to 2.8 pence in 2014. It again increased to 7.1 in 2016. The high EPS indicates that the company's profitability has been increasing and the company is currently in good financial health.

EPS for Headlam Plc

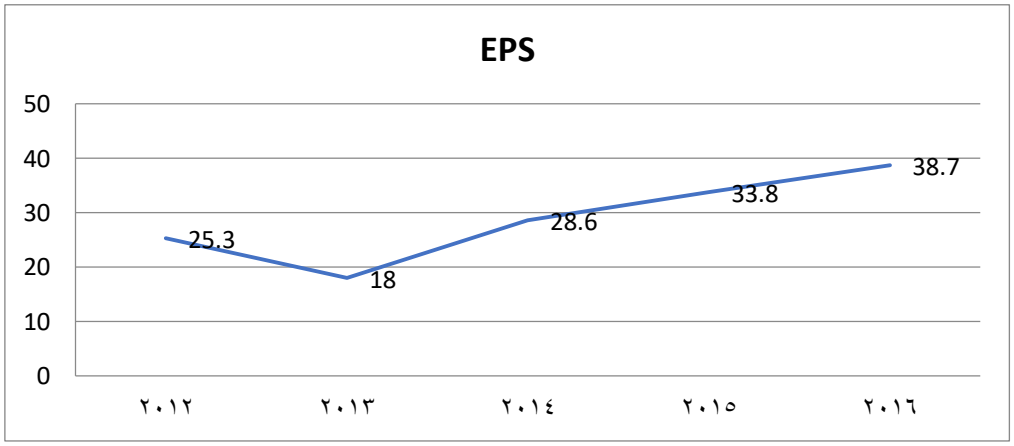
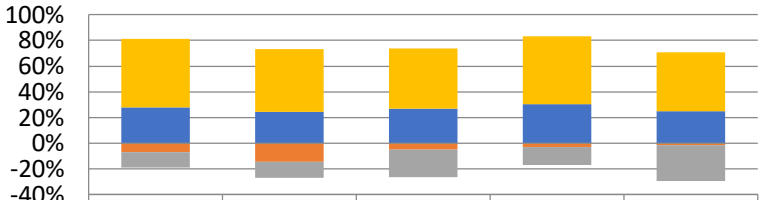


Figure 25: EPS for Headlam Plc

The EPS for the company Headlam Plc was 25.3 pence which decreased to 18 pence. After that, there has been a surge in EPS which is evident with 38.7 pence in 2016. This display that the company is riding on high profitability and its financial health is in very good phase.

2.3: Cash Flow Statement

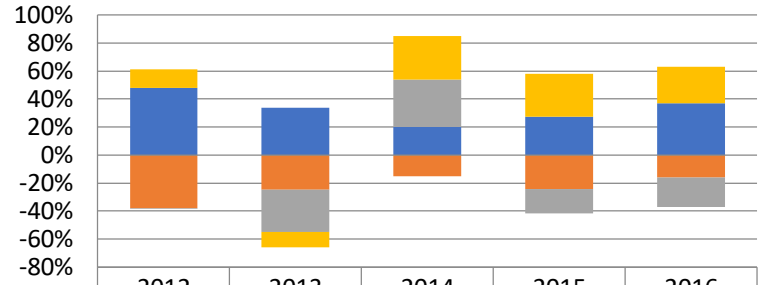
It is the financial statement which reflects how changes in the balance sheet of the company affect the cash in hand position of the company. This statement shows the inflow and outflow of funds of business during the financial year. The cash flow statement helps in determining whether the company will be able to pay off its expenses or not and whether it will be able to make any new investments or not. A positive cash flow means that the money is coming into the business and a negative cash flow means that money is going out of business.



	2012	2013	2014	2015	2016
Cash In Hand	49798	47477	47589	63932	59339
Financing Activities	-10960	-12280	-21871	-16467	-36232
Investing Activities	-6472	-14149	-5061	-3830	-1810
Operating Activities	25908	24027	27193	36506	32641

Figure 26: Cash Flow Statement of Headlam Group

Company's cash flow from operating activities was 25908 in 2012 which increased to 32641 in 2016. When the operating cash flows of the company are compared with the net income, it can be said that the cash flows are consistently increasing with increase in the net income. Thus it can be said that it is a good sign for the company as its income is converting into cash and also the operational efficiency of the company is improving. The cash outflow from investing activities of the company is very unstable. In 2013 the cash flow from investing activities was highest. This means that the company has made a huge investment in plant and equipment and also acquires a property in this year. Further in 2016, the cash outflow from investing activities was lowest. Moreover, the cash outflow from financing activities was highest in 2016. The total outflow in 2016 was (36232). This is because the company has paid off it's borrowing of 20000 and has also paid the dividend of 22464 to its shareholders. Moreover, it can also be seen that the company is not at all taking borrowings from the market so as to grow and expand. Further, from the above graph, it can also be seen that the company is consistently generating cash and is securing its position.



	2012	2013	2014	2015	2016
Cash in hand	7.6	-8.3	34.9	23.3	24.8
Financing activities	-0.4	-22.6	38.2	-13.1	-20
Investing Activities	-21.5	-18.3	-17	-18.6	-15.2
Operating Activities	27.3	25.2	22.5	20.9	34.9

Figure 27: Cash Flow Statement for McBridge Plc

Company's cash flow from operating activities has been decreasing from 2012 to 2015. In 2012 the cash inflow was 27.3 which declined to 20.9 in 2015. However, the company's performance improved and the cash inflow increased to 34.9 which is the positive sign The cash flow from investing activities of the company shows that the company is making a continuous investment in plant and equipment. In 2012 the company made a huge investment of 25.2 in plant and equipment and in acquiring property. In other years also company made investments was it was less as compared to 2012. Further on looking into the cash flow from financing activities there was a cash inflow of 38.2 in 2014. In 2014 the company drew a loan of amount 134.7. Therefore it can be

assumed that the company has taken a loan for further growth and expansion of its operations. Further on looking at the figures of cash in hand it can be said that the company's liquidity position is not much good. Therefore it is important for the company to take steps that will help in improving liquidity position.

Discussion:

This section includes the SWOT analysis of the two companies chosen for the study. The analysis is done company-wise as under:

SWOT Analysis of McBride Plc

Strengths

Being a Household manufacturer, it holds the strength of many years of experience in the market (since 1927). A wide range of products of dishwashers, laundry cleaning stuff, air fresheners and toilet cleaners help it in holding the position in the industry (McBride, 2017). The company has many products with the unique features, and it is one of their biggest strengths. For example, they had made the laundry cleaner keeping in mind the eczema disease and other skin allergies. Shareholders are also one of the greatest strengths of the company. This is evident as they help the company in providing funds, so that company me continue their operations without any problems. Due to their wide reachability, they are valuable for companies and could prove to be beneficial for them in the long run.

Weaknesses

Declining market share and higher restructuring and reorganising cost have resulted in the decline in the company's revenue in the recent times. This has significantly affected the company's goodwill. This is evident from the fact that profit of McBride plc was reduced to £20.0 million by 2016 and revenue decreased to £6.0 million which was approximately half of reduction in group sales from previous sales (McBride, 2017). In the case of Headlam, there has been a decrease in profitability in the company with 37% down from the previous year (Headlam Group, 2017).

Opportunities

The opportunity McBride caters is newer products in the market. It is expected that in the coming years the demands of its new products will be around 54 percent (*McBride*, 2017). Thus, it will result in higher revenues and profits. They cling to a bigger global market of about 41% as well. Further, it has been observed that there has been a constant increase in the disposable income level of the consumers. Moreover, the industry is expected to grow by 4 percent. With newer locations, its supply and dynamism would increase.

Threats

The major threats to McBride are market competition in the same field, changing government norms and regulations (which includes landfill tax, value added tax, consumer protection laws, etc.), changing business strategies and obsolete technologies. Around 27% of the company's equipment is about to obsolete (Swotanalysis24.com, 2017). Further, there is a dearth of suppliers in this industry. Thus, the company has a high threat from suppliers.

SWOT Analysis of Headlam Group Plc

Strengths

The company entered the home construction market with the organic concept in 1992 has. The company has now completed its 25th anniversary in 2017, showing its huge experience in the market. It has a presence in 16 countries with a hold of 60 wholly owned businesses. Having 55 service centres, it is working in the UK and continental Europe. Therefore, it has a wide

distribution and sales network. It has a greater presence in the domestic market and as a result, its revenue increased by 6% in the year 2016 (Jones and Palmer, 2017). Finally, the company has access to huge amount of monetary assistance. This has been able to achieve as the company was performing better than expected. Moreover, there has been remarkable growth which was higher than the previous year. In addition to this, the company have maintained sufficient banking facilities to be able to fund its operations and investments effectively.

Weaknesses

One of the greatest weaknesses of the company is its future productivity. The company is not proactive in the technological department. As a result, it may lose the battle against some of its rivals in terms of productivity. Another weakness of the company is its brand portfolio. Sometimes the extensive use of brand portfolio cannibalise the existing products of the company when they are positioned in a close market. Moreover, when any brand expands, the company is likely to be affected by any damage and if initial steps are not taken; it would severely affect its market.

Opportunities

The untouched market and newer products call for a greater opportunity for the company. Apart from this, it can acquire some smaller competitors to expand its business boundaries. The company can further, expand its global presence with the help of venture capitalists. This is will not only expand its business operations but also its customer base and capital required.

Threats

Political and economic policy changes, pricing policies changes, change in customer demand and tastes are the biggest threats to the business. Another threat to the company is low entry barrier in this business, which has increased the competition as in the recent time many new players have entered the market (Böhm, 2009). Finally, showing resistance to technological changes will also prove a major threat to the growth of the company.

Comparative Analysis of companies

The McBride has an internal strength which is very beneficial for it whereas the Headlam Group is internationally strong as it has its 60 companies which it owns. The organic concept of working makes Headlam group unique as compare to the McBride. On the part of the experience, both the companies are experienced in their respective areas.

As far as the weaknesses of both the companies are concerned, McBride has some financial issues whereas the Headlam has issues related to the product portfolio, equipment and future productivity. The market share of McBride is declining it means the financial performance of the company is degrading, but this kind of aspect is not visible in Headlam group. The McBride is suffering from the decline in revenue which indicates that it is unable to generate incomes from its sources whereas the Headlam group has not shown any such problem.

Since both, the companies are operating in the different sectors. Therefore they have opportunities accordingly. The McBride has the opportunity for the manufacturing of the new products whereas the Headlam group has a golden opportunity to establish in the untouched markets. Due to the increase in the disposable income of the customers, the McBride has ample of opportunities to make them available with the finest products whereas the Headlam group has the opportunity for the new acquisitions.

No business can be said to be free from any kind of threat. Threats are always associated with the businesses and economies. Here both the companies have threats related to their operating domains. Since the McBride is involved in the manufacturing of household products, there are huge chances of increase in the competition. Because of enormous competition, its demand can be affected whereas the Headlam group have threats of change in the tastes and preferences of the customers. The McBride can suffer problems from the suppliers' side, on the other hand, the Headlam group can suffer due to the economic and the political policies of the governments. The technological threats are similar for both the companies because the use of out-dated technologies can create a big problem in the way of the success of both the companies.

Conclusion and Recommendation:

This research paper sheds light on the financial performance of two companies named McBride Plc and Headlam Group plc. Both the companies are operating in household goods and home construction sector. McBride plc is operating in the household and personal care products while Headlam Group Plc is operating in flooring products. The ratio analysis and SWOT analysis of both companies have been done. From the ratio analysis, it can be interpreted that Headlam Group Plc is performing much better than the McBride Plc. The Headlam company is mainly financing is activities from equity shareholders instead of debt holders. The company is also having cash in hand and has liquidity. The profits of the company are increasing, and the company is also making timely interest payments. On the other hand, the debt-equity ratio of the Mcbride Plc is increasing which means that it is financing its activities through long-term borrowings and debts. Also, there has been a decrease in the liquidity of the company, and the company is running in losses. In 2014 the net income of the company was (19.1) this means that the company suffered huge losses.

Further on conducting the SWOT analysis it was found that there has been a decline in the market share of McBride Plc with the increase in restructuring and reorganising cost. However, there are a lot of opportunities that are present for the company. The company has the bigger global market and better supply chain management system. This will help the company to grow in future. On the contrary to this, the Headlam Group Plc has the obsolete equipment and weak brand portfolio. The opportunities for the company are that there is the huge untouched market which is available to the company so as to expand its market share. Further, there has also been an increase in the demand for products of the company which will help in further improving the profits and have sustainable development.

The researcher has recommended certain aspects for the given study. First is to have a comparison for different companies in the same sector across the world. This would help the researcher to provide accurate information about what is happening in the given sector. Second is to include SWOT Analysis of sector also so that it would be easy for future researchers to evaluate companies belonging to the given sector with ease.

Acknowledgement

With my great happiness I would like to send a stream of thanks to Prince Sattam bin Abdul Aziz University for their unlimited supporting us in this research

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تأثير التحليل المالي على الأداء في القطاع الصناعي في بريطانيا على المسؤولية الاجتماعية في الشركات

حسب الرسول يوسف التوم شهاب الدين
جامعة الأمير سطام بن عبد العزيز – كلية العلوم والدراسات الإنسانية
قسم إدارة الأعمال– المملكة العربية السعودية
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الملخص:

إن الهدف الأساسي من هذه الورقة هو اجراء تحليل مالي لمعرفة الموقف المالي والمسؤولية الاجتماعية لشركتين بريطانيتين هما شركة مك برايد بلس ومجموعة هدلام وتعملان في مجال البلاط. وقد أستخدم التحليل الرباعي (سوت) في التقييم. وقد أظهر التحليل ان الاداء بالنسبة لمجموعة هدلام أفضل من مك برايد بلس. وكذلك اظهر التحليل أن هناك تراجع في الحصة السوقية لشركة مك برايد بلس مع زيادة التكاليف. بل على الرغم من أن هدلام لديها الات قديمة ومحفظة علامة تجارية ضعيفة.

الكلمات المفتاحية: أداء، الربحية، حصة السوق.