THE HARVARD ESSAY TEMPLATE

by (Name)

Course

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Date

**Introduction**

This financial analysis of two well-known retail organizations, the John Lewis Partnership and Debenhams, is focused on the retail sector. Two firms located in the United Kingdom are participating. In order to make a decision on which of the two firms to invest in, the annual financial statements were extensively inspected and a financial analysis was carried out. Introduction to the paper provides some background information on the two firms as well as the primary income sources on which they depend. Therefore, both companies' balance sheets and profit and loss statements must be thoroughly scrutinized, as must the financial metrics of both organizations, such as liquidity, gearing, and efficiency. Among the retail industry's most well-known rivals are Debenhams and the John Lewis Partnership. Despite this, the financial status of the two businesses are equal to one another. It will become clear in the final part, which will feature a thorough review of the two firms under consideration. As a consequence, deciding on which firm to invest in would be quite challenging. We distinguish between the two businesses because one is more successful in terms of long-term viability, while the other is more successful in terms of short-term profitability. Both companies will get an overall financial score of 0.1 or 0.2 percent, which represents a statistically negligible difference in the overall score between the two companies analyzed. This was the first thing that was looked at once the ratio analysis was performed. The following report contains the results of the calculations and analyses of the ratios.

The John Lewis Partnership has three strategic aims, which are as follows: maximizing the potential of its Partners, increasing the market potential for their brands, and accomplishing growth in an effective way (Partnership, 2012). This is referred to as the Partnership (Partnership, 2012). The performance of Waitrose and John Lewis outperformed that of their respective industries in 2011, despite the challenging market circumstances, while the non-food area was especially difficult to win in 2011. There are several initiatives underway at Debenhams to ensure the company's long-term prosperity, including the improvement of under-invested core stores, the acceleration of store modernizations, and the establishment of new sites. Its ultimate purpose is to provide a compelling consumer offer. However, based on a variety of financial measures, they both have the potential to dominate the industry. However, their financial health is a source of worry (Plc., 2012). Our primary objective is to assist you in making an investment choice in a certain firm. From 2011 to 2012, the financial audits of each corporation are scrutinized. Operations, leverage, profitability, and net worth will all be studied in order to provide a comprehensive picture of the two organizations' financial performance.

**Methodology**

**Financial Analysis**

**Common-Size Analysis**

According to the Financial Accounting Standards Board (FASB), horizontal analysis is the comparison of financial statements over a specified period of time, while vertical analysis is the process of categorizing financial accounts as a proportion of a company's total account balance.

**Common-Size Income Statement Analysis**

Common-size financial statements for John Lewis Partnership Plc in 2012 show revenues of £7,759 (£397 million more than in the same period the previous year), an increase of 397 million. A total of £2,592 million was produced in gross profit last year. According to the company's financial statements, gross profit increased significantly over the previous fiscal year. EBIT (earnings before interest and taxes) increased from £241 million in 2011 to £259 million in 2012. In 2012, the company made a total of £259 million in gross profit and pre-tax earnings. As of December 31, 2012, the John Lewis Partnership had a net profit of £73 million. Even while sales were somewhat higher than they were at the same time last year, they were still lower than they were in the prior year. You can see how income has fluctuated over time in the graph. The gross profit for 2012 was £ 302 million, an increase of 12 percent over 2011. Gross profit was up a smidgeon from the previous year's figures. According to the company's financial documents, EBIT (earnings before interest and taxes) was £ 176 million this year. For the fiscal year that concluded on December 31st, 2011, De Beers Plc declared a net profit of £ 184 million.

**Common-Size Balance Sheet Analysis**

Almost a quarter (23.7 percent) of the John Lewis Partnership's total assets were accounted for by current assets on January 28, 2012, while non-current assets accounted for three quarters of the total. There was an increase in assets to £5,246 million (£299 million) for the whole period of consideration. Contrary to popular belief, even though assets rose during the period under review, shareholder equity fell by 3.1%. Growth in total assets was mostly due to the growth of the following asset types (the quantities and percentages of change in each asset category relative to the increase in total assets are shown below):

• £176 million in property, plant, and equipment (54.5 percent )

The value of intangible assets is $53 million (16.4 percent ) Inventories now stand at $43 million in value (13.4 percent )

• £38 million in cash and other financial assets (11.8 percent ) As a result, the following positions in the "Equity and Liabilities" section of the company's balance sheet (the percentage change from total equity and liabilities change is mentioned in parentheses) witnessed the most substantial growth:A total of £224 million is owed in pension obligations (43.1 percent )

There has been a borrowing and overdrawing of $137 million (26.3 percent )

Trade and other payables will get £120 million of the total (23 percent ) This time had a substantial amount of non-current assets for Debenhams Plcassetsstructure. .'s (78 percent ). According to the balance sheet, just 22% of the total amount was made up of current assets. Assets grew by a little amount (to £2,091 million) over the year. Debenhams Plcequitystayed .'s roughly the same (£ +1 million) and was at £661 million (or 31.6 percent of total capital) on September 3, 2012, despite a growth in the company's assets. There has been an increase in Debenhams Plc's total assets as a result of the growth of the following asset classes (the amount and the percentage of this change are indicated in the table below):

• £27 million in property, plant, and equipment (34.5 percent )

• Cash and cash equivalents worth £15.5 million (19.2 percent )

There are now $11 million worth of goods in stock (14.1 percent )

This company has £8 million in deferred tax assets (9.6 percent ) "Equity and Liabilities" positions in the company's balance sheet saw the most significant growth (the percent change from the total equity and liabilities increase is shown below) at the same time: A total of £57 million in retirement benefit obligations (51.5 percent )

Trade and other current liabilities totaled £36 million (32.6 percent ) "Retirement benefits assets" in the company's assets and "Current tax obligations, current" in its sources of financing had a negative impact on the company's total assets in the year under review, which were -£4 million and -£13 million, respectively.

**Comparative Analysis**

**Comparative Income Statement Analysis**

According to the corporation, the John Lewis Partnership's revenue increased by 5.4 percent between 2011 and 2012. While a rise in sales expenditures resulted in an increase in gross profit, the increase was not effective, as shown by a vertical income statement analysis. Additionally, the company's EBIT improved by 7.4 percent, which is adequate to pay accrued interest and taxes. Profits increased by an average of 1.73 percent on a year-over-year basis, mostly due to rising finance and tax costs. Debenhams' revenue climbed by less than 1%, or less than 1% of the company's total sales. While gross profit climbed by 1.9 percent due to a slight rise in cost of goods sold, net profit increased by just 1.9 percent. EBIT was reduced by 6.1 percent, suggesting that the amount was insufficient to pay interest and tax charges. When comparing John Lewis Partnership's EBIT to that of Debenhams, it is evident that the former's financial condition is better.

**Literature review**

Fundamentally, the goal of financial measurements is to assess a firm's performance. Additionally, financial ratios concentrate information on the assessment of business quality and decision-making processes, which is advantageous for analyzing a company's financial performance and performance indicators (Zager, 2006). According to Altman, using financial ratios to discover defects in a business's finances simplifies the process of identifying problems. By using specific ratios, it is possible to compare one corporation to another, as well as inside and across industries, and even within a single organization (Delen et al., 2013). Nissim and Penman (2001) provide a similar explanation, stating that financial ratios can be used to describe and quantify differences between an individual's financial and operational performance and that of comparable peers in order to ascertain the factors that contribute to negative or positive performance variances. Profitability, liquidity, solvency, and efficiency are the four categories of financial ratios. Profitability is the most critical of these factors (Gibson, 1982). Utilizing any of these areas to aid in forecasting and analyzing a business's financial status might be highly advantageous (Altman, 2012). Financial liquidity refers to a corporation's capacity to satisfy its short-term obligations on time by using high-liquidity liquid assets, sometimes referred to as "immediately available cash" (Bolek & Wilinski 2012). Profitability illustrates how well a business harnesses its resources to provide value to customers and shareholders (Trivedi, 2010). Solvency of a company "(...) demonstrates its capacity to pay its financial obligations in the event of bankruptcy. Financial stability is a function of both long- and short-term assets and obligations. According to Wikipedia, an efficient business is one that "(...) achieves the ideal scale for its industry and produces the optimal mix of products given the costs of its production components." On page 47, Guimares and Nossa (2010) wrote an article. The Amel and colleagues document begins on page 6. (2004).

**Analysis&Discussion**

**Debt related ratios**

All of the ratios are intended to highlight the link between equity and borrowed capital. There is a substantial difference between these two ratios:  The first is expressed as a ratio of borrowed capital (liabilities) to equity, while the second is expressed as a ratio of liabilities to total accessible capital (capital available) (i.e. the sum of equity and liabilities). Loth is a colloquial name for a loner or a loner who is a loner (2005) At the end of the third quarter, the John Lewis Partnership's debt-to-equity ratio was 1.61. After inflation was taken into account, the debt-to-income ratio was 0.62 at the conclusion of the research period. Between January 29th, 2011 and January 28th, 2012, the debt-to-income ratio increased significantly, according to the data gathered and analyzed (by 0.04). John Lewis Partnership's debt-to-capital ratio indicates a high level of liabilities at the conclusion of the period under review, with liabilities accounting for 61.7 percent of equity. According to conventional wisdom, a business's liabilities should not exceed 60% of its assets in order to prevent bankruptcy. If this were not the case, it would be damaging to the company's financial health, since the company's reliance on creditors would rise. When a corporation has a sound capital structure, the debt-to-capital ratio should not exceed 0.6. For the time period under consideration, Debenhams' debt-to-equity ratio was 2.16. The debt-to-income ratio was 0.68 in the first nine months of 2012, somewhat higher than it was at the commencement of the period under review (September 3rd, 2011). On the last day of the period under review (09/01/2012), Debenhams Plc's debt-to-capital ratio was 68.4 percent of the business's total capital, suggesting a grim financial picture for the firm. The maximum percentage allowed is 60%. Financial stability may be jeopardized if a business becomes too reliant on creditors, especially during periods of economic instability and credit market crises. At all times, it is advised that the debt-to-income ratio be kept at or below 0.6. (optimum 0.3-0.5).

**Return on Investment**

**Return on Assets and Return on Common Equity**

From 2012 to 2016, John Lewis Partnership had a return on assets of 2.6 percent, which is an unsatisfactory level of performance. Return on equity (ROE), which is sometimes referred to as the return on money invested by the business's owners, is a critical measure of a business's success. Owners of the John Lewis Partnership's assets received a 6.7 percent annual rate of return on their investments in the firm in 2012. However, a low profit margin might be a result of the company's internal macroeconomic circumstances, explaining why it has such a low rate of return on investment (for example, inflation rate, interest rates, etc.). Debenhams earned an excellent return on assets of 5.9 percent in fiscal year 2012. Profitability is determined by the return on equity (ROE), which indicates how much the business's owners got in return for their original investments. The owners of Debenhams Plcassets. made a profit of 19 percent last year. This is largely owing to the company's low percentage of own capital (equity) to total capital, which was 31.6 percent on the last day of the period under review, much below the acceptable ROE of 40% or higher. The company's low percentage of own capital (equity) to total capital, which stood at 31.6 percent on the last day of the period under review, is a main reason for the ROE's typical value.

**Operating Performance**

**Profit Margin Ratios**

The John Lewis Partnership's gross margin was 33.4 percent in fiscal year 2012. The gross margin was reported to be somewhat lower this year than it was the prior year. EBIT (earnings before interest and taxes) is a more accurate indicator of profitability and merits more attention. Annualized return on sales was 0.03 percent (or 3.3 percent) from January 29th, 2011 to January 28th, 2012, while net profit margin was 1.8 percent during same time period. Debenhams produced gross profit as well as operational and financial profit for the three-month period ending September 1, 2012, resulting in positive results for all three profitability categories in the table during this time. Gross margin improved by 0.2 percentage point year over year to 13.6 percentage point. Profitability, as measured by profits before interest and taxes (Return on sales), is more essential than any other metric of profitability for comparative purposes. Between September 3, 2011 and September 1, 2012, the company earned a 0.08 percent return on sales (or 7.9 percent yearly) and a 5.6 percent net profit margin.

**Conclusion**

Using the findings of the research for the time period under consideration, the primary financial status indicator values show the outcomes of John Lewis Partnership's actions (from January 29, 2011 to January 28, 2012) All of the following financial measurements are either at the top of their respective categories or are close to it. Cash ratio stood at 0.34 on the final day of consideration (showing that the firm has a large quantity of cash on hand for current payments); and the net worth (net assets) of the company is much bigger than its share capital at the end of consideration (by 299.8 times). Examples of positive financial traits include the following: Profit before interest and taxes (EBIT) was £ 259 million in 2011/12; EBIT increased by £ 18 million from the previous year's same period; and comprehensive income amounted £ 73 million in 2011.

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