**FINANCIAL DECISION MAKING**

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# (i) Introduction

Imperial Brands PLC is a multinational UK based organization operating business activity by producing and selling tobacco products. This organization has established itself as an international cigarette company among customers. Organization was founded in 1901 and generated revenue around 3,256.2 crores GBP (2020) (Finance.yahoo.com, 2023). Using various activity organizational approaches for continuous productivity and cost management has been evaluated by analyzing financial reports of the last 5 years. This organization has been operating business activity in approximately 30 countries which provided excellent opportunities for revenue and maintained excellence in portability development. Organization activity has been performing based on the leadership approach which is presenting information about marketing strategies and decision making ability for growth. Evaluation of financial report going to describe organizational performance in the last 5 years and provide perspective of further business activity.

# (ii) Ratio analysis and interpretation of financial information

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Profitability ratio** | | | | |
|  | **Net Profit Ratio** | **Formula** | **Amount** | **Ratio** |
| **Year** | Net Profit | **(Net Profit/Sales)\*100** | $ 15,70,000.00 | 4.82% |
| 2022 | Sales | $ 3,25,51,000.00 |
|  | Net Profit | $ 28,34,000.00 | 8.64% |
| 2021 | Sales | $ 3,27,91,000.00 |
|  | Net Profit | $ 14,95,000.00 | 4.59% |
| 2020 | Sales | $ 3,25,62,000.00 |
|  | Net Profit | $ 10,10,000.00 | 3.20% |
| 2019 | Sales | $ 3,15,94,000.00 |
|  | Net Profit | $ 8,58,500.00 | 2.86% |
| 2018 | Sales | $ 3,00,14,300.00 |
| **ROCE** | | | | |
| **Year** |  | **Formula** | **Amount** | **Ratio** |
| 2022 | EBIT | **EBIT / Capital employed = Total asset - Current liabilities** | £ 60,38,000.00 | 30.47% |
|  | Capital employed = Total asset - Current liabilities | £ 1,98,19,000.00 |
| 2021 | EBIT | £ 60,27,000.00 | 32.97% |
|  | Capital employed = Total asset - Current liabilities | £ 1,82,82,000.00 |
| 2020 | EBIT | £ 61,80,000.00 | 30.92% |
|  | Capital employed = Total asset - Current liabilities | £ 1,99,85,000.00 |
| 2019 | EBIT | £ 62,40,000.00 | 29.23% |
|  | Capital employed = Total asset - Current liabilities | £ 2,13,48,000.00 |
| 2018 | EBIT | £ 56,78,400.00 | 30.74% |
|  | Capital employed = Total asset - Current liabilities | £ 1,84,70,280.00 |

Profitability ratio has describing information regarding Net profit margin and return on capital employed. Evaluation of net profit margin has described continuous growth up to financial year 2021 because of NP margin 8.64%, whereas it has fallen down to 4.8 to percentage in financial year 2022 (Vogel, 2020). Revenue volume of the organization has fallen down in financial year 2022 that is the reason behind the deficit in net profit margin.

Return on capital employed of the organization has been identified as 30.74 percent in the financial year 2018 which has been projected to increase to 32.97% in the financial year 2021. This positive growth has been considered as an organizational success in financial planning and also provides it with sufficient flow of resources for business expansion (Chang *et al.* 2019).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Efficiency ratios** | | | | |
|  | **Asset Turnover Ratio** | **Formula** | **Amount** | **Ratio** |
| **Year** |  | **(Turnover/Sales)\*100** |  |  |
| 2022 | Turnover | £ 3,25,51,000.00 | 1.64 |
|  | Capital employed | £ 1,98,19,000.00 |
| 2021 | Turnover | £ 3,27,91,000.00 | 1.79 |
|  | Capital employed | £ 1,82,82,000.00 |
| 2020 | Turnover | £ 3,25,62,000.00 | 1.63 |
|  | Capital employed | £ 1,99,85,000.00 |
| 2019 | Turnover | £ 3,15,94,000.00 | 1.48 |
|  | Capital employed | £ 2,13,48,000.00 |
| 2018 | Turnover | £ 3,00,14,300.00 | 1.63 |
|  | Capital employed | £ 1,84,70,280.00 |

Imperial brand PLC efficiency has been evaluated by identification of assets turnover ratio which is present 1.63 times in financial year 2018. Current performance of the organization presented information regarding 1.64 times assets turnover ratio in financial year 2022 which is producing organizational performance effectively in productivity and profitability the development using assets volume (Fisu *et al.* 2020). According to asset turnover, organizational performance evaluates continuous population of business activity with optimization of total assets providing excellence in Business expansion whereas assets turnover ratio has not been developed in the last 5 years (Tao *et al.* 2022).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Liquidity ratio** | | | | |
|  | **Current Ratio** | **Formula** | **Amount** | **Ratio** |
| **Year** | Current Assets | **(Current Assets /Current Liabilities)** | £ 89,21,000.00 | 0.80 |
| 2022 | Current Liabilities | £ 1,11,39,000.00 |
|  | Current Assets | £ 82,07,000.00 | 0.76 |
| 2021 | Current Liabilities | £ 1,08,08,000.00 |
|  | Current Assets | £ 96,50,000.00 | 0.78 |
| 2020 | Current Liabilities | £ 1,23,25,000.00 |
|  | Current Assets | £ 1,10,88,000.00 | 0.90 |
| 2019 | Current Liabilities | £ 1,23,82,000.00 |
|  | Current Assets | £ 1,02,00,960.00 | 0.86 |
| 2018 | Current Liabilities | £ 1,18,86,720.00 |

Financial liquidity of Imperial brand has been evaluated by current ratio analysis that presented 0.80 times in financial year 2022 where it was 0.86 times in financial year 2018. According to the prosperity of liquidity present organizational financial operational activity has been struggling due to lack of sufficient financial resources.

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| --- | --- | --- | --- | --- |
| **Capital gearing ratio** | | | | |
|  | **Debt to equity ratio** | **Formula** | **Amount** | **Ratio** |
| **Year** | debt | **(Debt/Equity)** | £ 1,02,55,000.00 | 1.37 |
| 2022 | Equity | £ 74,73,000.00 |
|  | debt | £ 1,00,73,000.00 | 1.70 |
| 2021 | Equity | £ 59,40,000.00 |
|  | debt | £ 1,19,51,000.00 | 2.17 |
| 2020 | Equity | £ 55,18,000.00 |
|  | debt | £ 1,36,34,000.00 | 2.44 |
| 2019 | Equity | £ 55,84,000.00 |
|  | debt | £ 1,21,34,260.00 | 2.53 |
| 2018 | Equity | £ 48,02,240.00 |

Capital gain ratio evaluation has been calculated by debt to equity ratio which is present 2.53 times in the 2018 financial year and 1.37 times in FY 2022. Debt to equity ratio evaluates Imperial brand operated business activity dependent on debt financing that consumes interest expenses. Utilization of equity is less than debt financing that creates financial burden on net profit volume.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Investors’ ratio** | | | | |
| Year | **Earnings per Share** | **Formula** | **Amount** | **Ratio** |
| **2022** | profit after tax | **(profit after tax - preference dividend )/ total number of ordinary shares** | £ 10,99,000.00 | 1.14 |
| preference dividend | £ 17,500.00 |
| total number of ordinary shares | £ 9,50,408.00 |
| 2021 | profit after tax | £ 19,83,800.00 | 2.08 |
| preference dividend | £ 17,500.00 |
| total number of ordinary shares | £ 9,46,408.00 |
| 2020 | profit after tax | £ 10,46,500.00 | 1.09 |
| preference dividend | £ 17,500.00 |
| total number of ordinary shares | £ 9,46,408.00 |
| 2019 | profit after tax | £ 7,07,000.00 | 0.72 |
| preference dividend | £ 17,500.00 |
| total number of ordinary shares | £ 9,51,507.00 |
| 2018 | profit after tax | £ 6,00,950.00 | 0.68 |
| preference dividend | £ 16,900.00 |
| total number of ordinary shares | £ 8,56,356.30 |

Investors ratio has been calculated using Earning per share that presented investors' aspects in the last 5 years. This ratio has presented 0.68 in financial year 2018 which has been changed positively to 1.14 in financial year 2022 it evaluates investors could remain invested in this organization for positive results of the last 5 years (Fridson & Alvarez, 2022). Growth of Earning per share indicates organization equity price has been increased in the last 5 years that creates wealth for investors.

# (iii) Vertical and horizontal analysis

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Imperial Brands PLC** | | | | | | | | |
| Consolidated statement of Income (Horizontal analysis) | | | | | | | | |
| Particulars | 2022 | 2021 | 2020 | 2019 | Increase or decrease in FY 2021 | | Increase or decrease in FY 2022 | |
| Amount | Percentage | Amount | Percentage |
|  |  |  |  |  | % |  | % |
| Total Revenue | 3,25,51,000 | 3,27,91,000 | 3,25,62,000 | 3,15,94,000 | 2,29,000 | 1% | -2,40,000 | -1% |
| Cost of Revenue | 2,65,13,000 | 2,67,64,000 | 2,63,82,000 | 2,53,54,000 | 3,82,000 | 1% | -2,51,000 | -1% |
| Gross Profit | 60,38,000 | 60,27,000 | 61,80,000 | 62,40,000 | -1,53,000 | -2% | 11,000 | 0% |
| Operating Expense | 26,84,000 | 29,03,000 | 31,56,000 | 37,48,000 | -2,53,000 | -8% | -2,19,000 | -8% |
| Selling General and Administrative | 23,44,000 | 24,54,000 | 26,53,000 | 24,91,000 | -1,99,000 | -8% | -1,10,000 | -4% |
| Other Operating Expenses | -9,000 | -1,000 | -20,000 | 1,39,000 | 19,000 | -95% | -8,000 | 800% |
| Operating Income | 33,54,000 | 31,24,000 | 30,24,000 | 24,92,000 | 1,00,000 | 3% | 2,30,000 | 7% |
| Net Non Operating Interest Income Expense | -3,18,000 | -4,15,000 | -4,34,000 | -4,55,000 | 19,000 | -4% | 97,000 | -23% |
| Pretax Income | 25,51,000 | 32,38,000 | 21,66,000 | 16,90,000 | 10,72,000 | 49% | -6,87,000 | -21% |
| Tax Provision | 8,86,000 | 3,31,000 | 6,08,000 | 6,09,000 | -2,77,000 | -46% | 5,55,000 | 168% |
| Net Income Common Stockholders | 15,70,000 | 28,34,000 | 14,95,000 | 10,10,000 | 13,39,000 | 90% | -12,64,000 | -45% |

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Horizontal analysis has presented information regarding positive change in revenue and cost of revenue in financial year 2022 around 1%. Additional information has been derived about gross profit margin deficit -2% in financial year 2022 and pretax Income has been increased around 49%. Valuation of comparative analysis between growth and deficit between 2022 and 2021, revenue volume increased positively whereas gross and net profit fell down around -4%. According to statistics from a horizontal analysis, revenue and cost of revenue will increase by about 1% in fiscal year 2022 (Ginting, 2021). Pretax Income has climbed by around 49%, and the gross profit margin deficit is expected to be -2% in the 2022 fiscal year. Revenue volume increased positively while gross and net profit declined by almost 4% between 2022 and 2021, according to a comparative examination of growth and deficit.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Imperial Brands PLC** | | | | |
| **Consolidated statement of Income (Vertical analysis)** | | | | |
| **Particulars** | **2022** | Percentage | **2021** | Percentage |
| % | % |
| Total Revenue | 3,25,51,000 | 100.00% | 3,27,91,000 | 100.00% |
| Cost of Revenue | 2,65,13,000 | 81.45% | 2,67,64,000 | 81.62% |
| Gross Profit | 60,38,000 | 22.77% | 60,27,000 | 22.52% |
| Operating Expense | 26,84,000 | 44.45% | 29,03,000 | 48.17% |
| Selling General and Administrative | 23,44,000 | 87.33% | 24,54,000 | 84.53% |
| Other Operating Expenses | -9,000 | -0.38% | -1,000 | -0.04% |
| Operating Income | 33,54,000 | 10.30% | 31,24,000 | 9.53% |
| Net Non-Operating Interest Income Expense | -3,18,000 | -1.20% | -4,15,000 | -1.55% |
| Pretax Income | 25,51,000 | 42.25% | 32,38,000 | 53.72% |
| Tax Provision | 8,86,000 | 33.01% | 3,31,000 | 11.40% |
| Net Income Common Stockholders | 15,70,000 | 66.98% | 28,34,000 | 115.48% |

Vertical analysis presented 81.45% cost of revenue of financial year 2022 that was 81.62% in financial year 2021. According to the comparative information, the gross profit margin has been increased based on revenue is 22.77% in the financial year 2021. Vertical research showed that the cost of revenue for the fiscal year 2022 was 81.45% lower than it was for the fiscal year 2021 (81.62%). According to comparison data, the gross-profit margin has improved and will be 22.77% based on revenue in fiscal year 2021 (Jahangir *et al.* 2021). Vertical analysis also offered data on pretax income for the fiscal years 2022 and 2021, which are 42.25% and 53.72%, respectively. It also supplied data on the increase of gross profit, which declined in the fiscal year 2022 (Pinha & Sagawa, (2020). Vertical analysis also provided information regarding pretax income of financial year 2022 and 2021 are 42.25% and 53.72% it presented information regarding growth of gross profit has fallen down in FY 2022.

# (iv) Balanced scorecard covering FOUR perspectives

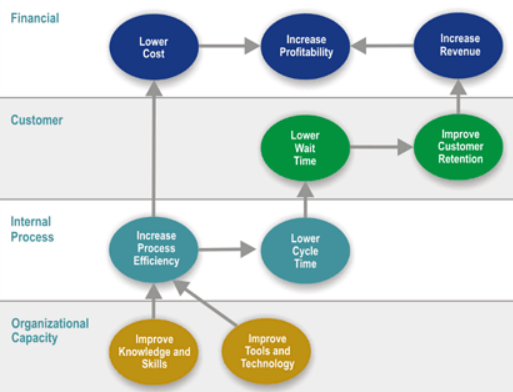
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***S.L. NO*** | ***Measure*** | ***Financial Year Target (Score)*** | ***Quarter 1(Score)*** | | ***Quarter 2 (Score)*** | | ***Quarter 3 (Score)*** | | ***Quarter 4 (Score)*** | | ***Responsible Person*** | ***Year to Day Performance*** |
|  |  |  | ***Actual*** | ***Target*** | ***Actual*** | ***Target*** | ***Actual*** | ***Target*** | ***Actual*** | ***Target*** |  |  |
| 1 | **Customer Satisfaction** | **100** | **18** | **25** | **11** | **25** | **22** | **25** | **17** | **25** | The marketing team is exclusively responsible for making sure that customer satisfaction levels rise in order to gauge success and customer happiness. | **68** |
|  | Empowerment of Customer Engagement | 35 | 7 | 10 | 3 | 10 | 0 | 0 | 8 | 15 |  | 18 |
|  | Increase in Level of Customer Satisfaction | 30 | 4 | 5 | 4 | 10 | 13 | 15 | 0 | 0 |  | 21 |
|  | Response to complaints and feedbacks | 35 | 7 | 10 | 3 | 5 | 9 | 10 | 9 | 10 |  | 28 |
| 2 | **Operational Performance Boost** | **100** | **15** | **25** | **21** | **25** | **22** | **25** | **14** | **25** | The operation manager and team are the most important and crucial individuals responsible for guaranteeing an improvement in operational performances. | **72** |
|  | Minimization in reduction of Resources | 40 | 5 | 10 | 6 | 10 | 12 | 15 | 3 | 5 |  | 26 |
|  | Optimization in daily production capacity | 20 | 2 | 5 | 5 | 5 | 0 | 0 | 8 | 10 |  | 15 |
|  | Minimization of cost and Expenses | 40 | 8 | 10 | 10 | 10 | 10 | 10 | 3 | 10 |  | 31 |
| 3 | **Evaluation and increment in Financial Performance** | 100 | 20 | 25 | 22 | 25 | 19 | 25 | 13 | 25 | The Imperial Brands PLC finance management is in charge of doing the financial parameter review. | 78 |
|  | Generating more revenue streams | 35 | 8 | 10 | 9 | 10 | 3 | 5 | 4 | 10 |  | 24 |
|  | Increasing Sales figures | 25 | 5 | 5 | 4 | 5 | 10 | 10 | 3 | 5 |  | 22 |
|  | Ensuring Timely delivery of finished products | 40 | 7 | 10 | 9 | 10 | 6 | 10 | 6 | 10 |  | 28 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Table 1: Balance score card**

(Source: Created by the learner)

This rise has been hailed as a success for the organization's financial strategy and also gives it access to enough resources to support business expansion. Positive ROCE growth has been interpreted as an investor engagement that presents a possibility to gather capital for long-term business operation expansion (Janssens *et al.* 2021). Imperial brand struggled to maintain enough growth in revenue volume to expand business operations continuously, which required a sufficient cash input. The organizational cost management strategies' ineffectiveness in managing operational activity is also shown by the net profit margin, which affects net profit volume (Palepu *et al.* 2020). Positive ROCE growth has been interpreted as an investor engagement that presents a possibility to gather capital for long-term business operation expansion.

# (v) Strategy map that links with the balanced scorecard



**Figure 1: Strategic plan**

(Source: Created by the learner)

Using Cost ***reduction*** policies, financial resources optimization needs to be a prime objective in business planning. The debt to equity ratio assesses the debt-financed business activity under the Imperial brand that incurs interest costs. Equity is used less frequently than debt financing (Jin *et al.* 2021), ***Productivity development*** puts less of a financial strain on net profit volume. ***Customer engagement development*** by utilizing capital gains would be ineffective for operations and activity because debt financing makes customer engagement development difficult for operations and electrical activities to grow to their full potential because a significant amount of overall revenue has been used for interest expenditures rather than marketing expenses.

# (vi) Engagement and reflection of group work

Capital gain regarding information has been reflected about financial resources importance in business operations which needs to be balanced for long term sustainability of business operation. Utilization of capital gain would not work effectively for operation and activity because debt Financing creates issues for sufficient growth in operation electrical activities because a major portion of total revenue has been utilized for interest expenses.

Return on capital employed evaluating optimization of total assets that could be provided information regarding the organizational aspect has the ability to grow business operations with sustainable cost management. Positive growth in ROCE has been considered as an engagement of investors that could be evaluated as an opportunity to collect financial resources for long term expansion of business operation. Last financial year 2022 return on capital employed has been identified as 30.47% it could be considered as deficit where management needs to focus on cash inflow for better return on capital employed establishment.

Excessive consumption of debt impacts negatively on profitability that have been evaluated by analysis because excessive interest expenses reduce ultimate profitability of Imperial brand. Continuous progression of business activity required sufficient cash inflow for growth of business operations where Imperial brand struggled to maintain sufficient growth in revenue volume.

Net profit margin also indicates organizational Cost Management policies not work effectively in operational activity management that disturb net profit volume.

Business operation activity depends on current assets that help to continue business operations with sufficient financial resources. Current assets presented information regarding availability of cash balance is higher than current liabilities that could be considered as a positive financial situation for Imperial brand to continue business operations.

# (vii) Conclusion and recommendation

***Conclusion***

It has been concluded based on ratio of current assets and liabilities present lack of growth in the financial aspect where current asset volume growth is required for long term sustainability. The fact that current assets have more information about the cash balance available than current liabilities could be viewed as a good financial development for the Imperial brand's capacity to carry on with operations. Current asset volume growth is necessary for long-term sustainability, however the ratio of current assets to liabilities shows lack of growth in the financial area. The debt to equity ratio assesses the debt-financed business activity under the Imperial brand that incurs interest costs. Equity is used less frequently than debt financing, which puts less of a financial strain on net profit volume.

***Recommendation***

Excess debt financing hinders operations and activity from expanding to their full potential by diverting a sizable portion of total revenue to interest payments rather than marketing expenses, sufficient customer engagement development through the use of capital gains might be ineffective for operations and activity. The use of cost-cutting initiatives and the optimization of financial resources must be the main goals of corporate planning. The debt to equity ratio evaluates the Imperial brand's debt-financed business activity that incurs interest charges. Productivity growth places less of a financial impact on net profit volume since equity is employed less frequently than debt financing.

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