**COMPANY: SMITHS GROUP PLC**

***MODULE TITLE: STRATEGIC FINANCIAL MANAGEMENT***

***MODULE CODE: BU7006***

***MODULE LEADER: DR. MUHAMMAD SANSUI***

***NUMBER OF WORDS: 4681***

***STUDENT ASSESSMENT NUMBER:***

**TABLE OF CONTENT**

[**1.** **EXECUTIVE SUMMARY** 5](#_Toc177925647)

[**2.** **INTRODUCTION** 6](#_Toc177925648)

[**2.1** **BACKGROUND OF COMPANY** 6](#_Toc177925649)

[**2.2** **COMPETITOR COMPANY OVERVIEW** 6](#_Toc177925650)

[**2.3** **INDUSTRY OVERVIEW OF SMITH GROUP PLC** 6](#_Toc177925651)

[**3.** **FINANCIAL PERFORMANCE ANALYSIS OF SMITH GROUP PLC** 7](#_Toc177925652)

[**3.1 PROFITABILITY RATIOS** 7](#_Toc177925653)

[**3.1.1** **GROSS PROFIT MARGIN** 7](#_Toc177925654)

[**3.1.2** **NET PROFIT MARGIN** 9](#_Toc177925655)

[**3.1.3** **RETURN ON ASSET** 10](#_Toc177925656)

[**3.1.4** **RETURN ON EQUITY** 10](#_Toc177925657)

[**3.1.5** **OVERALL INTERPRETATIONS** 11](#_Toc177925658)

[**3.1.6** **ALTMAN –ZSCORE** 12](#_Toc177925659)

[**3.2** **LIQUIDITY RATIOS** 13](#_Toc177925660)

[**3.2.1** **Current Ratio** 13](#_Toc177925661)

[**3.2.2** **Quick Ratio** 13](#_Toc177925662)

[**3.3 EFFICIENCY RATIOS** 15](#_Toc177925663)

[**3.3.1 ASSET TURNOVER RATIO** 15](#_Toc177925664)

[**3.3.2 INVENTORY TURNOVER RATIO** 15](#_Toc177925665)

[**3.3** **SOLVENCY RATIOS** 17](#_Toc177925666)

[**3.3.1** **DEBT TO EQUITY RATIO** 17](#_Toc177925667)

[**3.4** **CASH FLOW RATIOS** 18](#_Toc177925668)

[**3.4.1** **OPERATING CASH FLOW** 18](#_Toc177925669)

[**3.4.2** **INVESTING CASH FLOW** 18](#_Toc177925670)

[**3.4.3** **FINANCING CASH FLOW** 18](#_Toc177925671)

[**4.** **NON FINANCIAL PERFORMANCE ANALYSIS** 21](#_Toc177925672)

[**4.1** **ESG FACTORS** 21](#_Toc177925673)

[**4.2** **INNOVATION AND TECHNOLOGY** 21](#_Toc177925674)

[**4.3** **EMPLOYEE ENGAGEMENT** 22](#_Toc177925675)

[**5.** **PESTLE ANALYSIS** 22](#_Toc177925676)

[**5.1** **POLITICAL** 22](#_Toc177925677)

[**5.2** **ECONOMIC** 22](#_Toc177925678)

[**5.3** **SOCIAL** 22](#_Toc177925679)

[**5.4** **TECHNOLOGICAL** 23](#_Toc177925680)

[**5.5** **LEGAL** 23](#_Toc177925681)

[**5.6** **ENVIRONMENTAL** 23](#_Toc177925682)

[**6.** **SWOT ANALYSIS** 23](#_Toc177925683)

[**6.1** **STRENGTH** 23](#_Toc177925684)

[**6.2** **WEAKNESSES** 24](#_Toc177925685)

[**6.3** **OPPORTUNITIES** 24](#_Toc177925686)

[**6.4** **THREATS** 24](#_Toc177925687)

[**6.5** **STRENGTHS VS OPPORTUNITIES** 24](#_Toc177925688)

[**6.6 THREATS VS WEAKNESSES** 25](#_Toc177925689)

[**7.** **ANALYSIS OF NEW PLANS AND STRATEGIES** 25](#_Toc177925690)

[**8.** **CONCLUSION** 25](#_Toc177925691)

[**9.** **RECOMMENDATIONS** 25](#_Toc177925692)

[**10.** **REFERENCES** 26](#_Toc177925693)

# **EXECUTIVE SUMMARY**

Established in 1851, Smiths Group Plc is a multinational technology corporation based in Britain with a focus on sophisticated industrial engineering. The corporation is present in more than 50 countries and operates in industries such as healthcare, energy, aerospace, and security. The worldwide power management business Eaton Corporation, headquartered in Ireland, is its primary rival. The industrial engineering business has experienced significant expansion due to breakthroughs in artificial intelligence, automation, and robotics. The healthcare sector has benefited greatly from these advancements. The Smiths Group Plc has expanded its product line, emphasizing environmentally friendly technologies. There were variations in the company's financial performance from 2019 and 2023. The COVID-19 pandemic negatively affected the company's earnings in 2020, but it recovered by concentrating on healthcare. Both net and gross profit margins saw fluctuations, reaching a significant high in 2022. Both return on assets (ROA) and return on equity (ROE) exhibited irregular tendencies, with 2022 seeing strong performance and 2023 seeing losses.

The short-term financial health of Smiths Group is shown by its liquidity ratios, such as its current and quick ratios, even though difficulties surfaced in 2022. After some changes, the company's efficiency ratios—which include the asset and inventory turnover ratios—showed improvement by 2023. Its debt-to-equity ratio dropped dramatically, suggesting a decreased dependency on debt. Aiming toward net-zero emissions by 2040, Smiths Group has achieved progress in sustainability in non-financial terms. It places a high priority on staff involvement and makes large investments in R&D and innovation. Although the organization is positioned to benefit from expansion in emerging markets and sustainability trends, it nevertheless faces external hurdles such as political shifts, economic fluctuations, technology advancements, and regulatory issues. The company's new strategic plans center on investments in green technologies including hydrogen and carbon capture, a share buyback program, and organic sales growth.

# **INTRODUCTION**

## **BACKGROUND OF COMPANY**

The Smiths Group plc had been established in 1851. It serves as an international technological business having headquarters in the Britain whose main specialization is advanced industrial engineering. The company is renowned for offering unique remedies in extensive varieties of industries like healthcare, energy, aerospace as well as security. The Smith company has main headquarters in London and serves in more than 50 states. The development of advanced solutions which enhances operational efficiencies as well as security is this corporation’s top priority. This business has history of inaugurating novel technologies. The company established itself as an innovator in development of advanced frameworks with inclusion of security systems for transit centers as well as instruments for medical examinations (Walia, 2024).

## **COMPETITOR COMPANY OVERVIEW**

The global power administration business Eaton Corporation plc having its main headquarters in Ireland serves as a biggest threat to Smith Group Plc. The rival company offers numerous essential marketplaces for smith group in industry like energy-efficient, industrial supervision as well as electrical frameworks. Eaton has offered extensive variety of hydraulic, electrical as well as mechanical power generator goods and services, serving numerous industries like healthcare, energy as well as aerospace (Eaton Corporation Plc, 2024).

## **INDUSTRY OVERVIEW OF SMITH GROUP PLC**

The industrial engineering industry serves as sufficiently dynamic & rapid industry wherein Smith company is operating’ having a specific focus on companies which demand advanced technological solutions. Owing to recent developments in AI, automation as well as robotics, engineering sector has also enhanced substantially over the past years. Swift technology growth & innovation has been incorporated within the healthcare sector too’ specifically triggered by the intense need for precise & efficient diagnostics & treatment tools (Global Data, 2024). The smith group plc has diversified in context of range of products where it provides renewable energies & ecologically friendly tech as a response towards increasing international movements for sustainability.

# **FINANCIAL PERFORMANCE ANALYSIS OF SMITH GROUP PLC**

An evaluation of Smith Company’s financial condition during the years 2019-2023 has been included in this section. The company’s financial health was severely impacted by pandemic in year 2019. The international economic recession had led to supply chain interruptions, diminished demand in industries like aircraft (Partridge, 2020). However, besides such difficulties the company had to face, it readjusted itself by exclusively focusing on expansion of healthcare industry.

|  |  |
| --- | --- |
| Profitability Ratios | * Gross Profit Margin * Net Profit Margin * Return on Asset * Return on Equity |
| Liquidity Ratios | * Current Ratio * Quick Ratio |
| Efficiency Ratios | * Asset Turnover Ratio * Inventory Turnover Ratio |
| Solvency Ratios | * Debt-to-equity Ratio |
| Cash Flow Ratios | * Operating Cash Flow * Investing Cash Flow * Financing Cash Flow |

## **TABLE 01**

## **3.1 PROFITABILITY RATIOS**

The potential for an organisation to turn earnings through its operations, its financial resources, or equity in the company is measured using profitability ratios (Rutkowska-Ziarko, 2015).

### **GROSS PROFIT MARGIN**

An organization's gross margin comprises the percentage representation of the gross profit it makes over its entire sales volume. A corporation maintains greater financial resources if its gross margin is larger. Whenever a business's profit margin decreases, it could reduce labor costs or acquire less expensive sources (Bloomenthal, 2024). Here we analyze the gross profit margin of smith company from year 2019 to 2023 in order to evaluate how the company has been operating so far. The gross profit margin showed significant decline in 2020 at 9.45% owing to global pandemic. But it showed positive recovery in 2021 and stood at 13.5%.

**Formula**: (Net Profit/Revenue) ×100 (Murphy, 2024)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| YEAR | FORMULA | VALUES | COMPUTATION | GROSS PROFIT MARGIN |
| 2019 | Gross Profit Margin = (Revenue - Operating Costs) / Revenue × 100 | Revenue= £2,498 million  Operating Costs= £ 2172 million | GPM= (£2172 million/ £2,498 million) × 100= 13.0% | 13.05% |
| 2020 | Gross Profit Margin = (Revenue - Operating Costs) / Revenue × 100 | Revenue= £2,548 million  Operating Costs= £2307 million | GPM= (£2,548- £2307)/ £2,548 × 100= 9.45 | 9.45% |
| 2021 | Gross Profit Margin = (Revenue - Operating Costs) / Revenue × 100 | Revenue= £2,406 million  Operating Costs= £2,080 million | GPM= (£2,406- £2080)/ £2,406 × 100= 13.5 | 13.5% |
| 2022 | Gross Profit Margin = (Revenue - Operating Costs) / Revenue × 100 | Revenue= £2,566 million  Operating Costs= £2,449 million | GPM= (£2,556- £2449)/ £2,556 × 100= 13.5 | 4.18% |
| 2023 | Gross Profit Margin = (Revenue - Operating Costs) / Revenue × 100 | Revenue= £3037 million  Operating Costs= £2,634 million | GPM= (£3,037- £2,634)/ £3,037 × 100= 13.5 | 13.2% |

Table-1 3.1.1 Gross Profit Margin

### **NET PROFIT MARGIN**

A business's net profit margin indicates its earnings as the percentage of sales. Shareholders can assess when the management of a business is making sufficient revenue from purchases and if operational and administrative costs are being kept within check by examining the net profit margin. Some of the many crucial measures of a business's financial situation in general is the percentage of its net profit (Murphy, 2024). The net profit margin peaked in 2022 at 40.3% but showed lowest point in 2023 at 7.6%.

**Formula:** (Net Profit/Revenue) x 100 (Murphy, 2024)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| YEAR | FORMULA | VALUES | COMPUTATION | NET PROFIT MARGIN |
| 2019 | Net Profit Margin= Net Profit / Revenue x 100 | Net Profit= £227 million  Revenue= £2,498 million | Net Profit= £227 million / £2,498 million x 100= 9.08 | 9.08% |
| 2020 | Net Profit Margin= Net Profit / Revenue x 100 | Net Profit= £267 million  Revenue= £2,548 million | Net Profit= £267 million / £2,548 million x 100= 10.4 | 10.4% |
| 2021 | Net Profit Margin= Net Profit / Revenue x 100 | Net Profit= £285 million  Revenue= £2,406 million | Net Profit= £285 million / £2,406 million x 100= 11.8 | 11.8% |
| 2022 | Net Profit Margin= Net Profit / Revenue x 100 | Net Profit= £1035 million  Revenue= £2,566 million | Net Profit= £1035 million / £2,566 million x 100= 40.3 | 40.3% |
| 2023 | Net Profit Margin= Net Profit / Revenue x 100 | Net Profit= £232 million  Revenue= £3,037 million | Net Profit= £232 million / £3,037 million x 100= 7.6 | 7.6% |

Table 2 3.1.2 Net Profit Margin

### **RETURN ON ASSET**

(ROA) evaluates an organization's profit when compared to their assets in total. This is determined by multiplying the net income by the total assets of the corporation (Hargrave, 2024). The most significant ROA was visible in 2022 at 19.5%. But, this elevation lasted only a year and in 2023 the ROA declined severely to 7.89%.

**Formula:** (Net Income/Net Assets) x 100 (Hargrave, 2024)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| YEAR | FORMULA | VALUES | COMPUTATION | ROA |
| 2019 | (Net Income/Net Assets) x 100 | Net Income= £227 million  Total Assets= £5,318 million | £227 million/£5,318 million x 100= 4.26 | 4.26% |
| 2020 | Net Income= £267 million  Total Assets= £5,413 million | £267 million/ £5,413 million x 100= 4.93 | 4.93% |
| 2021 | Net Income= £285 million  Total Assets= £5,337 million | £285 million/ £5,337 million x 100= 5.34 | 5.34% |
| 2022 | Net Income= £1,022 million  Total Assets= £5,223 million | £1,022 million/ £5,223 million x 100= 19.5 | 19.5% |
| 2023 | Net Income= £344 million  Total Assets= £4355 million | £344 million/ £4355 million x 100= 7.8 | 7.89% |

Table 3 3.1.3 ROA

### **RETURN ON EQUITY**

ROE is a means of expressing the return of a business on net assets since the equity of shareholders equates to a business's assets less its liabilities (Fernando, 2024). The year 2019 had least Return on Equity at 9.61% because of global epidemic. But, the company rebounded itself and next year ROE went to 11.2%. It kept on enhancing till 2023 where a decline of 14.42% was seen.

**Formula**: (Net Income/Shareholder’s Equity) X 100 (CFI Team, 2024)

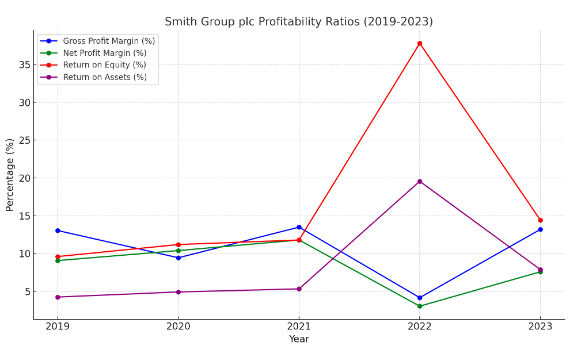
|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| YEAR | FORMULA | VALUES | COMPUTATION | ROE |
| 2019 | ROE= Net Income/ Shareholder’s Equity X 100 | Net Income= £227 million  Shareholder’s Equity= £2360 million | £227 million/£2360 million x 100= 9.61 | 9.61% |
| 2020 | ROE= Net Income/ Shareholder’s Equity X 100 | Net Income= £267 million  Shareholder’s Equity= £2373 million | £267 million/£2373 million X 100= 11.2 | 11.2% |
| 2021 | ROE= Net Income/ Shareholder’s Equity X 100 | Net Income= = £285 million  Shareholder’s Equity= £2402 million | £285 million/£2402 million X 100= 11.8 | 11.8% |
| 2022 | ROE= Net Income/ Shareholder’s Equity X 100 | Net Income= £1,022 million  Shareholder’s Equity= £2699 million | £1,022 million  / £2699 million X 100= 37.8 | 37.8% |
| 2023 | ROE= Net Income/ Shareholder’s Equity X 100 | Net Income= £344 million  Shareholder’s Equity= £2384 million | £344 million  /£2384 million X 100= 14.42 | 14.42% |

Table 4 3.1.4 ROE

### **OVERALL INTERPRETATIONS**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | Revenue ($m) | Gross Profit ($m) | Net Profit ($m) | Equity ($m) | Assets ($m) | Gross Profit Margin (%) | Net Profit Margin (%) | Return on Equity (%) | Return on Assets (%) |
| 2019 | £2,498 million | £ 2172 million | £227 million | £2360 million | £5,318 million | 13.05% | 9.08% | 9.61% | 4.26% |
| 2020 | £2,548 million | £2307 million | £267 million | £2373 million | £5,413 million | 9.45% | 10.4% | 11.2% | 4.93% |
| 2021 | £2,406 million | £2,080 million | £285 million | £2402 million | £5,337 million | 13.5% | 11.8% | 11.8% | 5.34% |
| 2022 | £2,566 million | £2,449 million | £1035 million | £2699 million | £5,223 million | 4.18% | 40.3% | 37.8% | 19.5% |
| 2023 | £3,037 million | £2,634 million | £232 million | £2384 million | £4,355 million | 13.2% | 7.6% | 14.42% | 7.89% |

Table 5 3.1.5 Overall Interpretations



**Figure: Demonstration of Profitability Analysis**

Smith Group’s profitability analysis has shown erratic patterns from year 2019-2023. Firstly, gross profit margin elevated to highest point in year 2021 i.e. 13.5% but was diminished in to 4.18% in year 2022. This margin was increased again in 2023 at 13.2%. Similarly, this erratic pattern was seen in net profit margin too wherein it showed impressive growth in 2022 at 40.3%; this year reflected as strong year for profitability. But, the profit margin reduced to 7.6% in 2023. The ROE elevated substantially in 2022 at 37.8%. The possible reason for this is enhanced efficiencies in developing returns for shareholders. But, year 2023 showed diminishing ROE at 14.42%. Similarly, ROA was decreased significantly to 7.89% in 2023 even though it showed good performance in 2022 i.e. 19.56%. The overall table has shown problems in sustaining profitability, demonstrating a sharp decline in 2022 along with minor rebound in year 2023.

### **ALTMAN –ZSCORE**

A financial model called the Altman Z-Score is used to forecast a company's risk of going insolvent. It assesses the financial well-being of an organisation by taking profitability, leverage, liquidity, and efficiency into account. The score aids in evaluating the degree of risk and the capacity of an organisation to handle financial challenges. The Altman Z-Score for Smith Group Plc from 2019 to 2023 illustrates the company's resilience throughout the pandemic and its slow post-pandemic recovery.

**Formula:** ​ζ = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E (CFI Team, 2024)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **YEAR** | **Working Capital ($m)** | **Retained Earnings ($m)** | **EBIT ($m)** | **Total Assets ($m)** | **Total Liabilities ($m)** | **SALES** | **MVE** | **Z-Score** |
| 2019 | 31 million | 1115 | £326 million | 5318 million | 2971 million | 2498m | 5,862,142,117 GBP | 2.16 |
| 2020 | -15 million | 1259 | £241 million | 5413m | 3091m | 2548m | 5,907,317,627 GBP | 2.09 |
| 2021 | -55 million | 1367 | £326 million | 5337m | 2915m | 2406m | £5.98 billion | 2.23 |
| 2022 | 477 million | 1659 | £117 million | 5223m | 2502m | 2566m | 5,351,149,302 GBP | 2.40 |
| 2023 | 387 million | 1431 | £403 million | 4355m | 1949m | 3037m | 5,692,247,644 GBP | 3.32 |

Table 6 3.1.6 Altman Z-score

**Interpretation:** Altman Z-score serves as financial metric for assessment of working capital, EBIT as well as retained profits for assessing any organization’s chance of bankruptcy. As per (Rashid, 2024) score demonstrated above 2.99 shows low chances of bankruptcy, meanwhile score of 1.8-2.99 shows moderate risk. The Smith Group’s z-score tends to improve yearly as it went from 2.16 to 3.32 from 2019-2023. This shows huge reductions in financial constraints & enhanced sustenance in 2023. But, some portions of possible financial weakness can be seen in prior years.

## **LIQUIDITY RATIOS**

### **Current Ratio**

The current ratio evaluates how well an organisation can use its current assets in order to pay its short-term debts.

**Formula:** Current Assets/Current Liabilities (Hargrave, 2024)

### **Quick Ratio**

Eliminating inventory, the quick ratio evaluates liquidity and demonstrates the business's capacity to satisfy immediate needs without depending on sales of stocks.

**Formula:** Current Assets-Inventory/Current Liabilities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | FORMULA | VALUES | COMPUTATION | CURRENT RATIO % | QUICK RATIO % |
| 2019 | Current Ratio = Current Assets / Current Liabilities | Current Asset= £2,700m  Current Liabilities= 918m  Inventory= 417 | £2,700m/918m= 2.94  2700-417/918=2.48 | 2.94% | 2.48% |
| 2020 | Current Ratio = Current Assets / Current Liabilities | Current Asset= £2,766m  Current Liabilities= 1,001m  Inventories= 446 | £2,766m/1,001m= 2.76  £2,766m- 446/1,001m= 2.3 | 2.76% | 2.3% |
| 2021 | Current Ratio = Current Assets / Current Liabilities | Current Asset= £2,736m  Current Liabilities= 987m  Inventories= 381 | £2,736m/987m= 2.77  £2,736m- 381/987m= 2.3 | 2.77% | 2.3% |
| 2022 | Current Ratio = Current Assets / Current Liabilities | Current Asset= £2,418m  Current Liabilities= 1,399m  Inventory= 570 | £2,418m/1,399m= 1.72  £2,418m- 570/1,399m= 1.32 | 1.72% | 1.32% |
| 2023 | Current Ratio = Current Assets / Current Liabilities | Current Asset= £1,746m  Current Liabilities= 898m  Inventory= 637 | £1,746m/898m= 1.9  £1,746m-637/898m= 1.23 | 1.9% | 1.23% |

Table 7 3.2.1 Quick and Current Ratios

**CURRENT RATIO**: The year 2019 saw a current ratio of 2.94 showing high liquidity. This implies that this company had approximately 3 times current assets for paying liabilities. But, this ratio declined to 2.76% in 2020; financial health was still sufficient. Ratio remained steady at 2.77 showcasing constant short-term financial administration. But, it declined in 2022 by 1.72 showing that company assets were lesser than liabilities. 2023 with 1.9% shows company is facing liquidity problems.

**QUICK RATIO:** The year 2019 saw a quick ratio of 2.48 demonstrating that with absence of inventory, this organization had sufficient liquidity. Ratio was decreased slightly in 2021 showing stability as well as slight decline in liquidity. But, in 2020 ratio was reduced immensely at 1.32% showing that company is unable to cover short-term liabilities with absence of inventories. The year 2023 with its drop in 1.23 showcased more dependability on inventory for paying obligations & liquidity problems in case inventory was unable rapidly liquefied to cash (Smith Group Plc, 2024).

## **3.3 EFFICIENCY RATIOS**

### **3.3.1 ASSET TURNOVER RATIO**

**Formula:** Revenue/Total Assets (Hartmann, 2024)

### **3.3.2 INVENTORY TURNOVER RATIO**

**Formula:** Cost of Goods Sold/Average Inventory

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | FORMULA | VALUES | COMPUTATION | ASSET TURNOVER | INVENTORY TURNOVER |
| 2019 | **Asset Turnover=** Revenue/Total Assets  **Inventory Turnover=** Cost of Goods Sold/Average Inventory | Revenue= £2,498 million  Total Assets=5318 million  COGS= 2172m  Inventories= 417m | £2,498 million/5318 million  = 0.46  2172m/417m= 5.2 | 0.46% | 5.2% |
| 2020 | Revenue= £2,548 million  Total Assets=£5,413 million  COGS= 2307m  Inventories= 446m | £2,548/=£5,413 million= 0.47  2307m/446m= 5.17 | 0.47% | 5.17% |
| 2021 | Revenue= £2,406 million  Total Assets=5337 million  COGS= 2080m  Inventories= 381m | £2,406/5337= 0.45  2080/381m= 5.45 | 0.45% | 5.45% |
| 2022 | Revenue=£2,566 million  Total Assets=£5,223 million  COGS= 2449M  Inventories= 1399m | £2,566/£5,223= 0.49%  2449M/1399m= 1.75 | 0.49% | 1.75% |
| 2023 | Revenue=£3,037 million  Total Assets= £4,355 million  COGS= 2634M  Inventories= 637m | £3,037/£4,355= 0.70  2634M/637m= | 0.70% | 4.13% |

Table 8 3.3 Asset/Inventory Turnover

**ASSET TURNOVER RATIO**: The asset turnover ratio indicates how well an organisation can make earnings off of the assets it owns. For instance, Smith Group Plc’s asset turnover is shown to be increasing from 2019 to 2020 (Smith Group Plc, 2024). But there is a sharp decline in 2021 at 0.45%. However, the company was able to rebound and have ratio of 0.70% in 2023. Overall, although there were fluctuations, company was able to steady itself.

**INVENTORY TURNOVER RATIO:** The inventory turnover ratio reflects the extent with which the business replaces and sells its inventory over time. For instance, Smith Group Plc’s inventory turnover ratio declined from 2019 to 202. The company redeveloped itself to 5.45% in 2021 but next year it declined dramatically to 1.75%. It rebounded to 4.13% in 2023. The company although faced inventory challenges, it was able to steady itself.

## **SOLVENCY RATIOS**

### **DEBT TO EQUITY RATIO**

**Formula:** Total Debt/ Shareholders’ Equity (Nukala, 2021)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **FORMULA** | **VALUES** | **COMPUTATION** | **DEBT TO EQUITY RATIO** |
| 2019 | Total Debt/ Shareholders’ Equity | Total Debt= £1,175 million  Shareholder’s Equity= 2360m | £1,175 million/2360m= 0.49 | 0.49% |
| 2020 | Total Debt= £1,113 million​  Shareholder’s Equity= 2373m | £1,113 million/2373m= 0.46 | 0.46% |
| 2021 | Total Debt= £1,022 million  Shareholder’s Equity=2402m | £1,022 million/2402m= 0.42 | 0.42% |
| 2022 | Total Debt= £150 million  Shareholder’s Equity=2699m | £150 million/2699m= 0.05 | 0.05% |
| 2023 | Total Debt= £387 million​  Shareholder’s Equity=2384m | £387 million/2384m= 0.16 | 0.16% |

Table 9 3.3.1 Debt-to-Equity Ratio

The debt-to-equity ratio compares the amount of debt to shareholders' equity in order to assess the company's monetary leverage (Nukala, 2021). A decline from from 2019 to 2020 was seen i.e. 0.49 to 0.05 which shows low reliability on debts which enhances financial sustenance and seats the company well for any future investments & developments.

## **CASH FLOW RATIOS**

The three types of cash flows are:

### **OPERATING CASH FLOW**

**Formula:** Net Income+ Non-Cash Expenses + Changes in Working Capital (American Express, 2024)

### **INVESTING CASH FLOW**

**Formula:** Cash inflows from sale of Assets−Cash outflows for purchase of assets

### **FINANCING CASH FLOW**

**Formula:** Cash inflows from debt/Equity−Cash outflows for dividends/repayment of debt

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **YEAR** | **FORMULA** | **VALUES** | **COMPUTATION** | **OCF** | **ICF** | **FCF** |
| **2019** | **OCF**= Net Income+ Non-Cash Expenses + Changes in Working Capital  **ICF**= Cash inflows from sale of Assets−Cash outflows for purchase of assets  **FCF**= Cash inflows from debt/Equity−Cash outflows for dividends/repayment of debt | Net-Income= £227m  Change in WC= -37m  Non-cash Expenses= £49 million.  CISA= £4m  COPA= £79m  CID/E= £391m  COD/R= £178m | OCF= £227m+49-37m= 239m  ICF= 4-79= -75  FCF= £391m-£178m= | 239m | -75m | 213m |
| **2020** | Net-Income= £267m  Change in WC= -17m  Non-cash Expenses= £48m  CISA= £1m  COPA= £61m  CID/E= £188m  COD/R= £126m | OCF= £267m+£48m-17m= 298  ICF= 1-61= 60  FCF= 188-126= 62 | 298m | 60m | 62m |
| **2021** | Net-Income= £285m  Changes in WC= 16m  Non-cash Expenses= £67m  CISA= £2m  COPA= £64m  CID/E= £2m  COD/R= £181m | OCF= 285+67+16= 368  ICF= 2-64= 62  FCF= 2-181= 179 | 368m | 62m | 179m |
| **2022** | Net-Income= £1035m  Changes in WC= 730m  Non-cash Expenses= £61 million.  CISA= £3m  COPA= £59m  CID/E= £509m  COD/R= £198m | OCF= 1035+61+730= 1826  ICF= 3-59= 56  FCF= 509-198=311 | 1826m | 56m | 311m |
| **2023** | Net-Income= £232m  Changes in WC= 171m  Non-cash Expenses= £135m  CISA= £2m  COPA= £81m  CID/E= £189m  COD/R= £142m | OCF= 232+135+171= 538  ICF= 2-81=79  FCF= 189-142=47 | 538m | 79m | 47m |

Table 10 3.4 Operating/Investing/Financing Cash Flows

**OPERATING CASH FLOW:** Operating cash flow reflects the cash generated from core business operations (Cottrell, 2017). For instance, the smith group plc showed OCF of 538m in 2023. This suggests that company has effective operational performance & developing sustainability.

**INVESTING CASH FLOW**: Investing cash flow reflects capital expenditures and investments. For instance, ICF in 2023 was 79m. High outflows for acquisitions indicate ongoing investment in the long-term assets of the company (Global Data, 2024).

**FINANCING CASH FLOW:** The way a firm finances its cash flow reveals how it handles debt and shareholder rewards. FCF totaled £47 million in 2023 (Walia, 2024). Dividend payments and moderate debt/equity flows point toward healthy financial standing and prudent capital management.



Table 11 3.5 Comparative Financial Metric Analysis

# **NON FINANCIAL PERFORMANCE ANALYSIS**

## **ESG FACTORS**

With regard to its environmental, social, and governance (ESG) initiatives, Smiths Group PLC has achieved significant strides. By 2040, the corporation wants to have zero net greenhouse gas emissions. Smith’s cut their carbon emissions by 18% in 2023, mostly by implementing energy-saving measures and putting more of its energy coming from renewable sources. In terms of social responsibility, Smiths encourages diversity and inclusivity among its employees; women hold 30% of the company's senior positions. Additionally, the corporation maintains stringent governance guidelines, placing a strong emphasis on accountability, ethics in business dealings, and transparency through board and management monitoring.

## **INNOVATION AND TECHNOLOGY**

Smith’s Group's innovation efforts account for a significant portion of its non-financial performance. Smith’s made significant investments in research and development (R&D), devoting about 4% of its yearly income to the advancement of cutting-edge technologies like industrial automation, cybersecurity, and AI-driven production. Its ability to compete on the world market depends on these initiatives. Along with lowering the environmental effect of its products across their whole existence, the company is also aiming to make them more sustainable.

## **EMPLOYEE ENGAGEMENT**

Safety, development, and employee well-being are given first priority at Smiths Group. The business announced a notable decline in workplace events in 2023, with a 25% annual drop in the total recordable injury rate (TRIR). The organization also places a strong emphasis on its learning and development initiatives. Through the Smiths Excellence Program, which encourages skill development and leadership training, over 90% of staff members have access to ongoing professional development.

# **PESTLE ANALYSIS**

## **POLITICAL**

Smith Group is vulnerable to political shifts because of its global operations, particularly in important markets such as the US, the UK, and the EU. Brexit is still having an impact on trade laws, which could have an impact on supply chains. Furthermore, as the aerospace and defense industries account for a sizable portion of the company's revenue, political unrest in some areas and defense expenditure policies are crucial (UKEssays, 2018).

## **ECONOMIC**

Global economic factors that affect Smiths Group include raw material costs, inflation, and currency volatility. Industrial demand may decline during economic downturns, while borrowing costs may rise in response to rising interest rates. Nonetheless, the company's specialist products have prospects due to the expansion of industries like healthcare and energy. Although it carries some financial risk, diversification into emerging markets increases possibilities as well.

## **SOCIAL**

Ageing populations in industrialized economies and post-pandemic changes in demand for health and safety are good news for Smiths Group's medical technologies and healthcare services. But there are constant obstacles due to the lack of qualified talent, particularly in engineering and R&D, necessitating continued investments in staff development.

## **TECHNOLOGICAL**

The Smiths Group's technology advancements, particularly in automation, cybersecurity, and medical devices, are critical to its success. Opportunities are presented by Industry 4.0 and AI, but if a company doesn't innovate quickly enough to stay competitive, the organization runs the risk of falling behind the speed at which technology is developing.

## **LEGAL**

Smith’s Group is subject to a number of rules and regulations, such as those pertaining to anti-corruption, export restrictions, and health and safety. Following the law is essential to avoiding fines and preserving operational continuity, particularly when it comes to cybersecurity and foreign trade.

## **ENVIRONMENTAL**

Smith’s Group is under pressure to reach sustainability targets, such its commitment to Net Zero emissions by 2040, as environmental requirements increase. While this offers chances for environmentally friendly innovation, missing these deadlines could result in regulatory fines and harm to one's reputation.

# **SWOT ANALYSIS**

## **STRENGTH**

Smith’s Group operates in several industries, including aircraft, healthcare, and energy, and has a significant global footprint. Its varied range of products lessens its dependence on any one industry, providing steady sources of income. Another asset of the business is its dedication to innovation, as evidenced by its steady investments in R&D for cutting-edge technologies like industrial automation, cybersecurity, and medical devices. The business's existing brand and track record for producing dependable, high-quality goods further strengthen its competitive advantage.

## **WEAKNESSES**

Despite its advantages, Smiths Group finds it difficult to keep up with the rapid advancements in technology, which leaves it open to attack from rivals that can innovate more swiftly. The organization's magnitude and intricacy may occasionally result in delayed decision-making procedures, especially concerning the optimization of operations and the integration of novel technology. Its exposure to certain regulated industries, such as the defense and healthcare sectors, where strict rules can impede product introductions and market access, is another significant risk.

## **OPPORTUNITIES**

The Smiths Group has a lot of potential in growing markets, especially in industries like cybersecurity, energy, and healthcare. Significant development potential is presented by the global trend toward automation and digitalization, particularly in light of the emergence of Industry 4.0 and IoT (Internet of Things) technologies. Another significant possibility is sustainability, as more and more sectors call for environmentally friendly goods and services. Smith’s Group is in a good position to benefit from this expanding trend in environmental sustainability because of its commitment to achieving Net Zero emissions by 2040.

## **THREATS**

Increasing international competition poses a danger to Smiths Group, especially in industries with rapid growth like industrial automation and healthcare technology. Relative economic volatility can also have a detrimental effect on profitability. This includes variations in raw material prices and currency values. Regulatory obstacles provide an additional risk, particularly in the military and healthcare sectors where modifications to laws or regulations may cause product launches to be delayed or market access to be restricted. Furthermore, the company's international activities may be disrupted by geopolitical instability, such as trade tensions and regional conflicts.

## **STRENGTHS VS OPPORTUNITIES**

Opportunities in rising markets and cutting-edge technology are well-suited to Smiths Group's varied portfolio and robust worldwide presence. Its reputation for quality can help secure new collaborations in these emerging areas, and its innovative capabilities allow it to capitalize on the growing demand for automation and digitalization. The business's emphasis on sustainability may help spur expansion in markets where consumers care about the environment.

## **6.6 THREATS VS WEAKNESSES**

Smith’s Group's inability to quickly adopt new technologies has become a serious vulnerability that makes it more vulnerable to attacks from competitors that are quicker and nimbler. Comparably, the business's exposure to highly regulated sectors increases the possibility of delays or limitations brought on by difficulties with the law or compliance. These vulnerabilities could be made worse by geopolitical instability, which would increase operational inefficiencies.

# **ANALYSIS OF NEW PLANS AND STRATEGIES**

A number of new strategic initiatives have been unveiled by Smiths Group PLC with the goal of enhancing market position and fostering growth. The company, buoyed by its robust performance in industries like as aerospace, energy, and security, reiterated its goal of 4-6% organic sales growth for the upcoming fiscal year 2024. Notably, the company intends to keep growing its margin and started a £100 million share buyback program. As part of its environmental ambitions, Smiths also intends to increase its footprint in green technology, with a particular emphasis on carbon capture, blue hydrogen, and battery manufacture. ​

# **CONCLUSION**

It has been concluded that in spite of dealing with operational along with financial issues, this organization was able to bounce back showing solid recovery in terms of profitability as well as strategic orientation in regards of growth in developing marketplaces. Company focus on sustenance & innovations would be important for preserving competitiveness & acquiring an edge in international marketable trends.

# **RECOMMENDATIONS**

* Make investments in advanced tech like AI, Robotics and automations.
* Company focus should be on making expansions in developing marketplaces specifically for eco-friendly & sustainable remedies.
* Enhance operational efficiencies for effective control of cash flows & enhancing profitability.
* Enhance liquidity management for sufficiently handling erratic economic situations.
* Make effective alliances in rapidly growing industries like healthcare, energy as well as aerospace.

# **REFERENCES**

1. American Express. (2024). How to Calculate Cash Flow (Formulas Included)? Retrieved 2024 from https://www.americanexpress.com/en-gb/business/trends-and-insights/articles/how-to-calculate-cash-flow/
2. Bloomenthal, A., & Kindness, D. (2024). Gross Margin: Definition, Example, Formula, and How to Calculate. Investopedia. Retrieved September 22, 2024, from https://www.investopedia.com/terms/g/grossmargin.asp
3. Butler, S. (2020). WH Smith pins hopes on autumn rebound after 85% fall in sales. theguardian. <https://www.theguardian.com/business/2020/may/14/wh-smith-pins-hopes-on-autumn-bounce-back-after-85-fall-in-sales>
4. CFI Team. (2024). Altman’s Z-Score Model. Retrieved from https://corporatefinanceinstitute.com/resources/commercial-lending/altmans-z-score-model/
5. CFI Team. (2024). Return on Equity (ROE). Retrieved from https://corporatefinanceinstitute.com/resources/accounting/what-is-return-on-equity-roe/
6. Cottrell, D. (2017). Teaching Operating Cash Flow: One Matrix for Analysis Two Methods for Presentation. SSRN Electronic Journal.
7. Eaton Corporation. (2024). Company profile. Eaton. Retrieved September 22, 2024, from https://www.eaton.com/us/en-us/company/investor-relations/investor-toolkit/stock-information/company-profile.html
8. Fernando, J., & Velasquez, V. (2024). Return on Equity (ROE) Calculation and What It Means. Investopedia. Retrieved September 22, 2024, from https://www.investopedia.com/terms/r/returnonequity.asp
9. Fin Box. (2024). Altman Z-Score for WH Smith PLC. https://finbox.com/LSE:SMWH/explorer/altman\_z\_score/
10. Global Data. (2024). Smith’s Group Plc Company Profile - Smiths Group Plc Overview. Global Data. Retrieved September 22, 2024, from https://www.globaldata.com/company-profile/smiths-group-plc/
11. Hargrave, M. (2024, August 26). Return on Assets (ROA) Ratio: Formula and "Good" ROA Defined. Investopedia. Retrieved September 22, 2024, from https://www.investopedia.com/terms/r/returnonassets.asp
12. Murphy, C. B. (2024). What Is Net Profit Margin? Formula and Examples. Investopedia. Retrieved September 22, 2024, from https://www.investopedia.com/terms/n/net\_margin.asp
13. Nukala, & Bhargava, V. (2021). Role of debt-to-equity ratio in project investment valuation, assessing risk and return in capital markets. Future Business Journal, 7(1), pp. 1-23,
14. Rathburn, P. (2024). Debt-to-Equity (D/E) Ratio Formula and How to Interpret It. Investopedia. Retrieved September 22, 2024, from https://www.investopedia.com/terms/d/debtequityratio.asp
15. Rutkowska-Ziarko, A. (2015). The Influence of Profitability Ratios and Company Size on Profitability and Investment Risk in the Capital Market. Folia Oeconomica Stetinensia, 15(1). 10.1515/foli-2015-0025
16. Rashid, F. (2024, April 18). (PDF) A Comprehensive Review of the Altman Z-Score Model Across Industries. Research Gate. Retrieved September 23, 2024, from https://www.researchgate.net/publication/379837119\_A\_Comprehensive\_Review\_of\_the\_Altman\_Z-Score\_Model\_Across\_Industries
17. Smith Group Plc. (2024). Smith Group plc. AnnualReports.com. Retrieved September 22, 2024, from https://www.annualreports.com/Company/smiths-group-plc
18. Stice, J., & Cottrell, D. (2017). Teaching Operating Cash Flow: One Matrix for Analysis – Two Methods for Presentation. SSRN. https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=3058236
19. UKessays. (2018, November). Smith Group SWOT and PESTLE Analysis. https://www.ukessays.com/essays/marketing/an-over-view-of-the-smiths-group-plc-marketing-essay.php?vref=1
20. Walia, H. S. (2024). Smith Group Plc Analysis Report. https://www.academia.edu/11191713/Smiths\_Group\_plc\_Analysis\_Report