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TESCO: From troubles to turnaround[[1]](#endnote-1)

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“We set out to start rebuilding profitability whilst reinvesting in the customer offer, and we have done this,”[[2]](#endnote-2) exclaimed Dave Lewis, chief executive officer (CEO) of Tesco PLC, while declaring the company’s annual results on April 13, 2016. Tesco, a U.K.-based retailer with a market capitalization of £14.73 billion,[[3]](#endnote-3) was Britain’s biggest grocer both by market share and revenue.[[4]](#endnote-4) The company had posted a £162 million pre-tax profit for fiscal year (FY) 2015/16, up from a loss of £6.38 billion in FY 2014/15.

In Tesco’s 2016 annual report, Lewis stated,“This has been a significant year for Tesco. We have delivered unprecedented change over the past 12 months as we have begun to transform our business.”[[5]](#endnote-5) However, while the company had been able to churn out profitability, the net sales had consistently dropped since FY 2012/13. Similarly, the share price of the company had fallen by more than 20 per cent from January 2015 to January 2016, and by around 50 per cent from January 2014 to May 2016 (see Exhibit 1). What course of action would enable Lewis to improve Tesco’s value for shareholders? What area(s) should he focus on in order to bolster Tesco’s financial performance? What should Lewis do to improve Tesco’s market share in the United Kingdom?

the Company

Tesco was established as a grocery and general merchandise retailer in 1919.[[6]](#endnote-6) However, since 1990, the company had started to diversify by offering books, clothing, electronics, furniture, toys, petrol, software, financial services, and telecommunications/Internet services—all while expanding its reach geographically. Tesco offered both value range products (branded as “Tesco Value”) and premium range products (branded as “Tesco Finest”). As of 2016, the company had 3,460 stores in the United Kingdom (see Exhibit 2), 6,902 stores around the world, and 476,000+ employees (see Exhibit 3).[[7]](#endnote-7)

Tesco ranked as the world’s fifth largest retailer in terms of revenue as of 2015.[[8]](#endnote-8) Tesco’s rank dropped from second in 2012 to fifth in 2013, attributed to the declining sales of the company.[[9]](#endnote-9) Tesco had been listed on the London Stock Exchange since 1947,[[10]](#endnote-10) and was a constituent of the Financial Times Stock Exchange 100 Index.[[11]](#endnote-11) The firm had a market capitalization of approximately £18.1 billion as of April 22, 2015—the 28th-largest of any company with a primary listing on the London Stock Exchange.[[12]](#endnote-12)

Business Model

According to Tesco’s 2015 annual report, the company’s business model focused on four key areas: customers, products, reinvestment, and channels. The company had a simple mission: “To be the champion for customers, helping them to enjoy a better quality of life and an easier way of living.”[[13]](#endnote-13)

Growth Strategy

Tesco had refocused its business under three operational headlines: (1) listening to, understanding, and reaching out to customers to create the best possible offer; (2) working with growers and suppliers to make great products, and helping to deliver the best value to customers; and (3) working across different channels to get those products to customers in the most convenient way possible. The company had a special blend of capability, skills, and reach, complemented by a rich heritage in retail, which management hoped would help to earn customer loyalty and subsequently create value for shareholders.[[14]](#endnote-14)

Past Performance

With close to 100 years of corporate history, Tesco had pioneered smaller convenience stores and provided products under its own brand.[[15]](#endnote-15) The number of Tesco stores in the United Kingdom increased from 2,715 stores in FY 2010/11 to 2,979 stores in FY 2011/12.[[16]](#endnote-16) This rapid expansion helped the company emerge as one of the biggest retail chains in the world. Tesco’s financial performance was on an upward trend until FY 2011/12. The company’s revenue increased from £60.46 billion in FY 2010/11 to £64.54 billion in FY 2011/12 (an increase of 6.76 per cent), while the gross profit increased from £5.13 billion in FY 2010/11 to £5.26 billion in FY 2011/12 (an increase of 2.65 per cent) (see Exhibit 4).

However, Tesco’s revenue then fell from £64.83 billion in FY 2012/13 to £63.5 billion in FY 2013/14 (see Exhibit 4). Tesco’s then CEO, Philip Andrew Clarke, tried to revive the business with a plan to inject £1 billion to refurbish 430 stores and hire 8,000 new store workers to enhance the shopping experience for customers.[[17]](#endnote-17) The idea was to turn Tesco into a multi-channel retailer in an effort to revitalize its business and grow with customers’ needs. Despite these efforts, profits and share prices continued to decrease. As a result, Clarke was fired.

The New CEO: Dave Lewis

Lewis became group chief executive of Tesco on September 1, 2014. He brought with him 28 years of experience at Unilever in a variety of roles, which took him across Greater Europe, Asia, and the Americas. His last three roles included chairman of Unilever in the United Kingdom and Ireland, president of the company’s divisions in the Americas, and global president of the personal care division. During his career, Lewis had been responsible for a number of business turnarounds within these roles and areas.[[18]](#endnote-18)

Upon Lewis’s move to Tesco, former Tesco board director Andy Higginson said, “I think Dave Lewis is a great hire for Tesco. . . . He’s very seasoned and a successful manager. He’s got great values and will be very strong on sorting the strategy out.”[[19]](#endnote-19) Market analysts agreed that Lewis’s appointment brought hope for Tesco, with one analyst noting that the appointment, coupled with the recent hiring of Alan Stewart from Marks & Spencer as Tesco’s finance director, meant that “shareholders now have the change they have been pushing for*.*”[[20]](#endnote-20)

Lewis joined Tesco at a time when the company was undergoing a severe financial crisis. From the company’s cash position to its decreasing sales, Tesco’s new CEO had numerous issues to address. Soon after hiring Lewis in September 2014, Tesco experienced another massive setback in the form of an accounting scandal. Tesco’s previous chairman Sir Richard Broadbent explained:

The issues that have come to light over recent weeks are a matter of profound regret. We have acted quickly to clarify the financial performance of the company. A new management team is in place to address the root causes of the misstatement, and to develop and implement the actions that will build the company’s future.[[21]](#endnote-21)

The fraud was publicly exposed when the company’s predicted profits for the first half of 2014 were cut back from £1.1 billion to £263 million. Accounting issues further affected Tesco’s performance.

the Retail Industry

Although the U.K. retail industry had grown steadily until 2013, the trend started to dip after this point. This decrease was attributed to the United Kingdom’s slow economy at the time. The growth rate decreased from 2.3 per cent in 2014 to 2 per cent in 2015. With the country’s gross domestic product growth hovering around 2 per cent (which was less than the long-term economic growth rate), retail spending was projected to decrease by around 0.2 per cent every year until 2020.[[22]](#endnote-22)

Several reports and trends exhibited a move toward technology and online retail in the U.K. retail industry. Moreover, the industry began to experience a dramatic shift toward discount retail stores, which were very simple in design. Due to the volatile economy, consumers started to prefer discount stores over all other offerings. The average 12-week market share of German discount stores such as Aldi and Lidl saw a rise of over 1 per cent from 2014 to 2016, while other competitors in the U.K. market saw negative market share growth during the same period (see Exhibit 5).[[23]](#endnote-23)

Tesco’s Financial results for FY 2014/15 and 2015/16

During FY 2014/15, there had been renewed focus on corporate governance. The company’s board spent a significant proportion of its time examining and strengthening Tesco’s processes throughout the group. Low-performing stores were shut down, and many staff members were laid off to reduce costs. Tesco closed 43 stores that were not yielding any profits and stalled the opening of 49 new stores. Moreover, the company regained ownership of 21 superstores to reduce rent exposure. In an attempt to focus on its core customers, Tesco also sold off all major non-core business. The company’s Korean business, Homeplus, was sold for £4.2 billion as a measure to strengthen Tesco’s balance sheet.[[24]](#endnote-24)

In FY 2015/16, Lewis’s primary focus was to turn Tesco back into a customer-centric business. Therefore, Lewis implemented many strategic changes with three focal points to help Tesco recover from the accounting scandal of 2014: (1) regaining competitiveness in core U.K. business; (2) protecting and strengthening the balance sheet and profits; and (3) rebuilding trust and transparency.[[25]](#endnote-25)

Competition in the market was driving companies to lower their margins and offer deep discounts. Tesco’s top competitors—Asda, Morrisons, and Sainsbury’s—had a solid hold in the market, and new players—Aldi and Lidl—were competing fiercely for market share. Under these circumstances, Tesco focused on delivering the best competitive price for its customers. Tesco’s 2015 strategic report stated, “In October 2015, we became the first—and still only—retailer in the [United Kingdom] to offer customers an immediate price match at the till with Brand Guarantee.”[[26]](#endnote-26) To ensure lower prices, Tesco invested all excess profits in the prices of products. In 2015, the company launched a range of products with an emphasis on lower prices. Capital expenditure was also cut from £2.88 billion in FY 2013/14 to £2.32 billion in FY 2014/15, and was further reduced to £1.04 billion in FY 2015/16 (see Exhibit 6).

When Tesco’s results for FY 2015/16 were announced, everyone was surprised with the turnaround that Lewis had achieved since his arrival: the company that had faced huge losses in FY 2014/15 had now registered a net profit of £138 million in FY 2015/16 (see Exhibit 4). According to the company’s 2016 strategic report, one of the most important changes was the establishment of a new purpose for Tesco: “Serving shoppers a little better every day.”[[27]](#endnote-27)This purpose began to guide all of Tesco’s decisions and shape every action the company took.

Although Tesco’s revenue decreased (from £62.28 billion in FY 2014/15 to £54.43 billion in FY 2015/16), international sales contributed a great deal toward overall sales, constituting 19.1 per cent of total revenue. Tesco focused on cost management, leading to reductions in the cost of sold goods and operating costs, which enabled the company to achieve an operating profit of £1.05 billion in FY 2015/16 (see Exhibit 4).[[28]](#endnote-28)

challenges ahead

Mike Dennis, an analyst at Cantor Fitzgerald, predicted that Tesco would be fined roughly 1 per cent of U.K. grocery sales (approximately £350 million) attributed to the accounting scandal of 2014.[[29]](#endnote-29) In addition, the Serious Fraud Office (SFO) could levy other fines, which, together, could amount to around £500 million. Tesco also had to repay or refinance £1.1 billion in bonds due in September 2016, and £330 million due in January 2017 (see Exhibit 7).[[30]](#endnote-30) Additionally, the company had a pension deficit.[[31]](#endnote-31) According to the analyst:

[T]he possible fines and legal redress could be classified as exceptional costs but would also drain Tesco of needed cash resources [and] ability to repay debt, and potentially limit any margin recovery. . . . We believe, the implications of a stronger regulator, Groceries Code Adjudicator (GCA), a compliant grocery industry, and potential restrictions from the SFO could place significant limitations on Tesco’s ability to recover margin and repay/refinance [bonds]. . . . The whole industry is currently trying to manage cost pressures, ranging from the living wage to higher rent and rates, as well as falling sales in supermarkets and hypermarkets. So, for Tesco specifically, and the industry, this might severely limit any future price reinvestment against the discounters and margin recovery.[[32]](#endnote-32)

The results for FY 2015/16 were encouraging, but in April 2016,[[33]](#endnote-33) Lewis acknowledged that Tesco’s recovery would not be smooth, and that the company was still facing major challenges. Share prices fell as investors became cautious of the company’s profit warning. Lewis also hinted at a likely fall in sales over the next year. Despite these statements, Lewis appeared optimistic in Tesco’s 2016 annual report and financial statements, saying, *“*Of course there is still more to do—but we are on the road to recovery and momentum is building across the business.”[[34]](#endnote-34)

Given all of these efforts, would Tesco’s new CEO be able to bring the company out of its downward spiral? Could he convince shareholders that Tesco was a worthy investment?

Exhibit 1: Tesco’s Share prices, 2012 TO 2016

Source: “Tesco Share Price,” Thomson Reuters, accessed April 22, 2016.

Exhibit 2: TESCO Store TYPES in the United Kingdom, with count AND Features

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Format** | **Year** | **Number of stores** | **Total area of stores (in square feet)** | **Mean area of each store (in square feet)** | **(%) of total space owned by Tesco** |
| Tesco Extra | 2016 | 252 | 17,846,000 | 70,817 | 42.99 |
| 2015 | 250 | 17,763,000 | 71,052 | 42.01 |
| 2014 | 247 | 17,610,000 | 71,296 | 42.12 |
| 2013 | 238 | 17,051,000 | 71,643 | 42.11 |
| Homeplus | 2016 | 0 | 0 | - | 0.00 |
| 2015 | 11 | 488,000 | 44,364 | 1.15 |
| 2014 | 12 | 523,000 | 43,583 | 1.25 |
| 2013 | 12 | 523,000 | 43,583 | 1.29 |
| Tesco Superstores | 2016 | 478 | 14,002,000 | 29,293 | 33.73 |
| 2015 | 487 | 14,254,000 | 29,269 | 33.71 |
| 2014 | 482 | 14,110,000 | 29,274 | 33.75 |
| 2013 | 481 | 14,053,000 | 29,216 | 34.70 |
| Tesco Metro | 2016 | 177 | 2,005,000 | 11,328 | 4.83 |
| 2015 | 191 | 2,150,000 | 11,257 | 5.08 |
| 2014 | 195 | 2,191,000 | 11,236 | 5.24 |
| 2013 | 192 | 2,145,000 | 11,172 | 5.30 |
| Tesco Express | 2016 | 1,732 | 4,031,000 | 2,327 | 9.71 |
| 2015 | 1,735 | 4,030,000 | 2,323 | 9.53 |
| 2014 | 1,672 | 3,883,000 | 2,322 | 9.29 |
| 2013 | 1,547 | 3,588,000 | 2,319 | 8.86 |
| One Stop | 2016 | 779 | 1,256,000 | 1,612 | 3.03 |
| 2015 | 770 | 1,235,000 | 1,604 | 2.92 |
| 2014 | 722 | 1,142,000 | 1,582 | 2.73 |
| 2013 | 639 | 991,000 | 1,551 | 2.45 |
| Dobbies | 2016 | 36 | 1,652,000 | 45,889 | 3.98 |
| 2015 | 35 | 1,648,000 | 47,086 | 3.90 |
| 2014 | 34 | 1,638,000 | 48,176 | 3.92 |
| 2013 | 32 | 1,540,000 | 48,125 | 3.80 |
| Tesco Dotcom | 2016 | 6 | 716,000 | 119,333 | 1.72 |
| 2015 | 6 | 716,000 | 119,333 | 1.69 |
| 2014 | 6 | 716,000 | 119,333 | 1.71 |
| 2013 | 5 | 604,000 | 120,800 | 1.49 |

Source: Compiled by the case authors, based on Tesco PLC, *Annual Report and Financial Statements 2016*, 163–164, accessed May 22, 2016, www.tescoplc.com/media/264194/annual-report-2016.pdf; and Tesco PLC, *Annual Report and Financial Statements 2015*, 151–152, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar15/download\_annual\_report.pdf.

Exhibit 3: TESCO: Five-Year Record

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2015/16** | **2014/15** | **2013/14** | **2012/13** | **2011/12** |
| Revenue (in £ millions) | 54,433 | 56,925 | 63,557 | 63,406 | 63,916 |
| Revenue growth (%) | −4.28 | −10.43 | 0.24 | −0.80 | - |
| Profit/(Loss) (in £ millions) | 129 | (5,766) | 970 | 24 | 2,814 |
| Profit/(Loss) growth (%) |  |  |  |  |  |
| Number of stores | 6,902 | 6,849 | 7,305 | 6,653 | 6,049 |
| Average number of employees | 482,152 | 480,607 | 510,444 | 506,856 | 514,615 |

Source: Compiled by the case authors, based on Tesco PLC, *Annual Report and Financial Statements 2016*, 85, 163, accessed May 22, 2016, www.tescoplc.com/media/264194/annual-report-2016.pdf; Tesco PLC, *Annual Report and Financial Statements 2015*, 83, 151, 168, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar15/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2014*, 69, 138, 144, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar14/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2013*, 72, 136, accessed April 22, 2016, www.tescoplc.com/media/1456/tesco\_annual\_report\_2013.pdf; and Tesco PLC, *Annual Report and Financial Statements 2012*, 90, accessed April 22, 2016, www.tescoplc.com/media/1455/tesco\_annual\_report\_2012.pdf.

Exhibit 4: Tesco and Subsidiaries, Consolidated Statement of Operations and Comprehensive Loss

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **INCOME STATEMENT** |  |  |  |  |  |  |
| Fiscal year ends in February  (in £ millions, except per share data) | **2015/16** | **2014/15** | **2013/14** | **2012/13** | **2011/12** | **2010/11** |
| Revenue | 54,433 | 62,284 | 63,557 | 64,826 | 64,539 | 60,455 |
| Cost of revenue | 51,579 | 64,396 | 59,547 | 60,737 | 59,278 | 55,330 |
| Gross profit | 2,854 | (2,112) | 4,010 | 4,089 | 5,261 | 5,125 |
| Operating expenses |  |  |  |  |  |  |
| Sales, general, and administrative | 1,852 | 2,695 | 1,657 |  |  |  |
| Other operating expenses | (44) | 985 | (278) | 1,901 | 2,486 | 2,290 |
| Total operating expenses | 1,808 | 3,680 | 1,379 | 1,901 | 2,486 | 2,290 |
| Operating income | 1,046 | (5,792) | 2,631 | 2,188 | 2,775 | 2,835 |
| Interest expense | 498 | 499 | 447 | 445 | 417 | 465 |
| Other income (expense) | (386) | (85) | 75 | 217 | 1,477 | 1,271 |
| Income before income taxes | 162 | (6,376) | 2,259 | 1,960 | 3,835 | 3,641 |
| Provision for income taxes | (54) | (657) | 347 | 574 | 879 | 864 |
| Minority interest | (9) | (25) | (4) | (4) | 8 | 16 |
| Other income | (9) | (25) | (4) | (4) | 8 | 16 |
| Net income from continuing operations | 216 | (5,719) | 1,912 | 1,386 | 2,956 | 2,777 |
| Net income from discontinuing operations | (87) | (47) | (942) | (1,266) | (142) | (106) |
| Other | 9 | 25 | 4 | 4 | (8) | (16) |
| Net income | 138 | (5,741) | 974 | 124 | 2,806 | 2,655 |
| Net income available to common shareholders | 138 | (5,741) | 974 | 124 | 2,806 | 2,655 |

Source: Compiled by the case authors, based on Tesco PLC, *Annual Report and Financial Statements 2016*, 85, accessed May 22, 2016, www.tescoplc.com/media/264194/annual-report-2016.pdf; Tesco PLC, *Annual Report and Financial Statements 2015*, 83, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar15/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2014*, 69, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar14/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2013*, 72, accessed April 22, 2016, www.tescoplc.com/media/1456/tesco\_annual\_report\_2013.pdf; Tesco PLC, *Annual Report and Financial Statements 2012*, 90, accessed April 22, 2016, www.tescoplc.com/media/1455/tesco\_annual\_report\_2012.pdf; and Tesco PLC, *Annual Report and Financial Statements 2011*, 94, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/tesco\_annual\_report\_2011.pdf.

Exhibit 5: Average market share growth (12 weekS ending) 2014–2016

Source: Compiled by the case authors, based on Kantar WorldPanel, “Great Britain—Grocery Market Share (12 weeks ending),” Kantar WorldPanel, 2016, accessed May 5, 2016, www.kantarworldpanel.com/en/grocery-market-share/great-britain.

Exhibit 6: Tesco AND SUBSIDIARIES: Cash Flow Statement

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Fiscal year ends in February  (in £ millions, except per share data) | **2015/16** | **2014/15** | **2013/14** | **2012/13** | **2011/12** | **2010/11** |
| Net cash provided by operating activities | 2,126 | 484 | 3,185 | 2,837 | 4,408 | 4,267 |
| Net cash used for investing activities | (615) | (2,015) | (2,854) | (278) | (3,183) | (1,859) |
| Net cash provided by (used for) financing activities | (604) | 814 | 56 | (2,365) | (1,366) | (3,036) |
| Effect of exchange rate changes | 1 | 78 | (105) | 26 | 24 | (46) |
| Net change in cash | 908 | (639) | 282 | 220 | (117) | (674) |
| Cash at beginning of period | 2,174 | 2,813 | 2,531 | 2,311 | (6,790) | (7,929) |
| Cash at end of period | 3,082 | 2,174 | 2,813 | 2,531 | (6,907) | (8,603) |
| Operating cash flow | 2,126 | 484 | 3,185 | 2,837 | 4,408 | 4,267 |
| Capital expenditure | (1,038) | (2,318) | (2,881) | (2,987) | (3,708) | (3,551) |
| Free cash flow | 1,088 | (1,834) | 304 | (150) | 700 | 716 |

Source: Compiled by the case authors, based on Tesco PLC, *Annual Report and Financial Statements 2016*, 89, accessed May 22, 2016, www.tescoplc.com/media/264194/annual-report-2016.pdf; Tesco PLC, *Annual Report and Financial Statements 2015*, 87, accessed April 22, 2016www.tescoplc.com/files/pdf/reports/ar15/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2014*, 73, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar14/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2013*, 76, accessed April 22, 2016, www.tescoplc.com/media/1456/tesco\_annual\_report\_2013.pdf; Tesco PLC, *Annual Report and Financial Statements 2012*, 94, accessed April 22, 2016, www.tescoplc.com/media/1455/tesco\_annual\_report\_2012.pdf; and Tesco PLC, *Annual Report and Financial Statements 2011*, 98, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/tesco\_annual\_report\_2011.pdf.

Exhibit 7: Tesco and Subsidiaries: Consolidated Balance Sheet

| FY ends in February (in £ millions, except per share data) | **2015/16** | **2014/15** | **2013/14** | **2012/13** | **2011/12** | **2010/11** |
| --- | --- | --- | --- | --- | --- | --- |
| Assets |  |  |  |  |  |  |
| Current assets |  |  |  |  |  |  |
| Cash |  |  |  |  |  |  |
| Cash and cash equivalents | 3,082 | 2,165 | 2,506 | 2,512 | 2,305 | 2,428 |
| Short-term investments | 3,639 | 746 | 1,096 | 580 | 1,284 | 1,170 |
| Total cash | 6,721 | 2,911 | 3,602 | 3,092 | 3,589 | 3,598 |
| Inventories | 2,430 | 2,957 | 3,576 | 3,744 | 3,598 | 3,162 |
| Receivables |  | 2,121 | 2,190 | 2,525 | 2,657 | 2,330 |
| Prepaid expenses | 440 | 516 | 388 | 417 | 420 | 387 |
| Other current assets | 5,237 | 3,453 | 5,816 | 3,318 | 2,599 | 2,562 |
| Total current assets | 14,828 | 11,958 | 15,572 | 13,096 | 12,863 | 12,039 |
| Non-current assets |  |  |  |  |  |  |
| Property, plant, and equipment |  |  |  |  |  |  |
| Land | 22,557 | 25,298 | 25,734 | 24,817 |  |  |
| Fixtures and equipment |  |  |  |  | 9,967 | 8,895 |
| Other properties | 10,468 | 11,493 | 10,851 | 10,826 | 27,058 | 25,767 |
| Property and equipment, at cost | 33,025 | 36,791 | 36,585 | 35,643 | 37,025 | 34,662 |
| Accumulated depreciation | (15,125) | (16,351) | (12,095) | (10,773) | (9,324) | (8,401) |
| Property, plant, and equipment, net | 17,900 | 20,440 | 24,490 | 24,870 | 27,701 | 26,261 |
| Goodwill | 2,517 | 2,288 | 2,286 | 2,954 |  |  |
| Intangible assets | 357 | 1,483 | 1,509 | 1,408 | 4,618 | 4,338 |
| Deferred income taxes | 49 | 514 | 73 | 58 | 23 | 48 |
| Other long-term assets | 8,253 | 7,531 | 6,234 | 7,743 | 5,576 | 4,520 |
| Total non-current assets | 29,076 | 32,256 | 34,592 | 37,033 | 37,918 | 35,167 |
| Total assets | 43,904 | 44,214 | 50,164 | 50,129 | 50,781 | 47,206 |
| Liabilities and stockholders' equity |  |  |  |  |  |  |
| Liabilities |  |  |  |  |  |  |
| Current liabilities |  |  |  |  |  |  |
| Short-term debt | 2,815 | 1,998 | 1,904 | 760 | 1,838 | 1,386 |
| Capital leases | 11 | 10 | 6 | 6 |  |  |
| Accounts payable | 4,545 | 5,076 | 5,831 | 6,036 | 5,971 | 5,782 |
| Taxes payable | 807 | 461 | 893 | 959 | 416 | 432 |
| Other current liabilities | 11,536 | 12,265 | 12,765 | 11,224 | 11,024 | 10,131 |
| Total current liabilities | 19,714 | 19,810 | 21,399 | 18,985 | 19,249 | 17,731 |
| Non-current liabilities |  |  |  |  |  |  |
| Long-term debt | 10,623 | 10,520 | 9,188 | 529 | 9,911 | 9,689 |
| Capital leases | 88 | 131 | 115 | 9,539 |  |  |
| Deferred taxes liabilities | 135 | 199 | 594 | 1,006 | 1,160 | 1,094 |
| Pensions and other benefits | 3,175 | 4,842 | 3,193 | 2,378 |  |  |
| Minority interest | (10) |  | 7 | 18 | 26 | 88 |
| Other long-term liabilities | 1,553 | 1,641 | 953 | 1,031 | 2,660 | 2,069 |
| Total non-current liabilities | 15,564 | 17,333 | 14,050 | 14,501 | 13,757 | 12,940 |
| Total liabilities | 35,278 | 37,143 | 35,449 | 33,486 | 33,006 | 30,671 |
| Stockholders' equity |  |  |  |  |  |  |
| Additional paid-in capital | 5,095 | 5,094 | 5,080 | 5,020 | 4,964 | 4,896 |
| Retained earnings | 3,265 | 1,985 | 9,728 | 10,535 | 12,369 | 11,197 |
| Accumulated other comprehensive income | 266 | (8) | (93) | 1,088 | 442 | 442 |
| Total stockholders' equity | 8,626 | 7,071 | 14,715 | 16,643 | 17,775 | 16,535 |
| Total liabilities and stockholders' equity | 43,904 | 44,214 | 50,164 | 50,129 | 50,781 | 47,206 |

Source: Compiled by the case authors, based on Tesco PLC, *Annual Report and Financial Statements 2016*, 87, accessed May 22, 2016, www.tescoplc.com/media/264194/annual-report-2016.pdf; Tesco PLC, *Annual Report and Financial Statements 2015*, 85, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar15/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2014*, 71, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/ar14/download\_annual\_report.pdf; Tesco PLC, *Annual Report and Financial Statements 2013*, 74, accessed April 22, 2016, www.tescoplc.com/media/1456/tesco\_annual\_report\_2013.pdf; Tesco PLC, *Annual Report and Financial Statements 2012*, 92, accessed April 22, 2016, www.tescoplc.com/media/1455/tesco\_annual\_report\_2012.pdf; and Tesco PLC, *Annual Report and Financial Statements 2011*, 96, accessed April 22, 2016, www.tescoplc.com/files/pdf/reports/tesco\_annual\_report\_2011.pdf.

ENDNOTES

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