

SEP_AIN3133

by S S

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CASE STUDY: ACCOUNTING AND FINANCE

Executive Summary

The given report intends to evaluate the financial performance of the UK-based company, FirstGroup Plc. A brief introduction about the company, its key characteristics, resources, recent financial structure, and issues are highlighted. Interpretation of the financial ratios is included in the paper accessing the financial position of the company in the past 3 years. Financial performance comparison of FirstGroup is reflected concerning to its core rivalry, National Express Group Plc. The justification behind developing a new joint venture for the company's Board of Directors is also incorporated.

(i) Introduction

Accounting and finance are two closely associated concepts that are fundamental to the functioning of the business corporation. The existing assignment is developed to evaluate the financial performance and position of FirstGroup Plc based on its past three year's structure.

FirstGroup Plc identifies as the multinational transport corporation of the United Kingdom (UK) engaged to offer transit, train, and bus services in North America and the UK. The organisation operates a diversified business portfolio comprising First Student, First Rail, and First Bus. The core business of FirstGroup evolves bus transportation which comprises nearly 5,000 buses operating in 40 cities and towns across the nation. The rail business of FirstGroup comprises commuter rail services in North America and passenger rail services in the UK. Besides, the division of First Student of the company operates nearly 40,000 school buses within the premises in North America. FirstGroup concerning its recent financial position reported aggregate revenue of £6.9 billion for the period ending 31 March 2022 with an incremental of 1.6% compared to its initial period. Additionally, the organisation reported a loss before taxation worth £2.8 billion for the period, specifically associated with impairment charges associated with the pandemic's consequence on its business.

The key resources of FirstGroup comprise its extensive network of transit, trains, and bus services followed by its experienced workforce and management team. The organisation's scale and size of its crucial bargaining power with suppliers, whereas its developed brands in the context of the transport industry help to retain and attract potential customers. The investments in digital technologies, for instance, its mobile payment and ticketing platform ensure FirstGroup to improve its operational efficiency and customer experience. Moreover, FirstGroup evolves with numerous issues in the context of fulfilling its objectives within its marketplaces. One of the prominent issues is the ongoing consequence of the Covid-19 pandemic on its operations. The pandemic has led to a majority demand reduction for public transport services, especially in urban regions, and has also forced it to adapt its operations to the evolving customer requirements. The financial position of the company has also been affected leading to reporting major losses in the past period concerning high expenses and impairment charges. Another major issue for FirstGroup is competition within the transportation sector. FirstGroup faces competition from other developed operators including new disruptors and entrants such as car-sharing services and ride-hailing. As a consequence, the company should continue investing in innovative services and technologies to meet their

customer’s changing needs and stiff competition. Referring to the annual reports of the recent periods, the report intends to analyse the financial structure of FirstGroup including offering adequate recommendations about the same.

(ii) Evaluation of the First Group Plc’s financial statements and other financial information
Profitability performance
Operating profit margin



Figure 1: Graph indicating the operating profit structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: The operating profit margin of FirstGroup Plc decreased from 5% in 2021 to 3% in 2022. Although the operating profit margin of the company has decreased, it has not decreased as significantly as it did from -2% in 2020. This in return shows that the business has been able to increase its profitability over the past two years by acquiring a better structure of operating profit and revenue in both of the years of 2021 and 2022.

Net profit margin

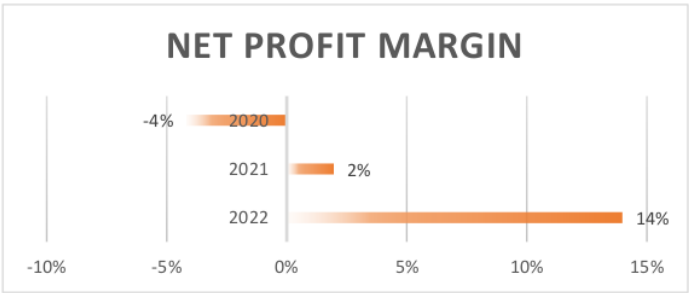


Figure 2: Graph showing the net profit structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: The net profit margin of FirstGroup Plc has increased from -4% in 2020 to 2% in 2021. Furthermore, the company experienced a dramatic increase in net profit margin structure in the year 2022 worth 14% in comparison to both of its initial periods of 2020 and 2021. This in return highlights that the business of FirstGroup Plc has been able to keep costs under control and increase its operating earnings in the recent period.

Liquidity performance

Current ratio

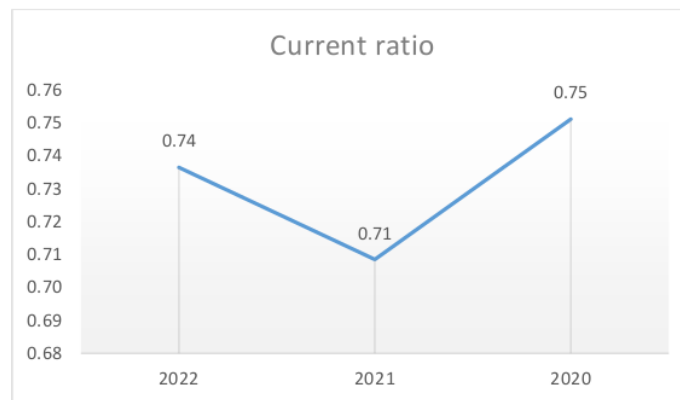


Figure 3: Graph highlighting the current ratio structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: FirstGroup Plc incurs a current ratio structure worth 0.75 in 2020, 0.71 in 2021, and 0.74 in the year 2022. Moreover, it is identified that the current ratio for the company has been very consistent over the last three years. This condition also signifies that FirstGroup Plc is not able to specifically pay off its short-term debt obligations with the help of the structure of its current assets.

Quick ratio

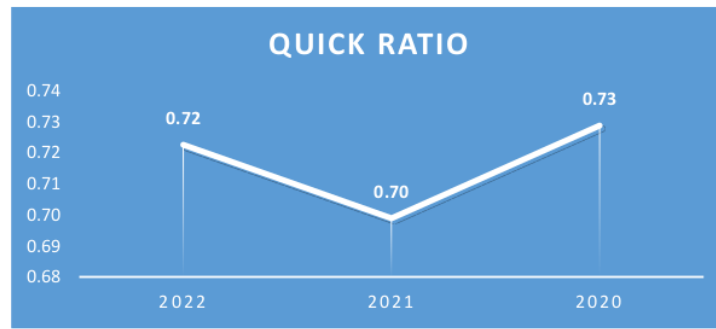


Figure 4: Graph offering quick ratio structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: The quick or acid-test ratio of FirstGroup Plc is explored as 0.73 in 2020, 0.70 in 2021, and 0.72 in 2022. It is relevant to exclaim that the quick ratio held steady, fluctuating between 0.70 and 0.73 between 2020 and 2022. Furthermore, it indicates that the quick assets of the company fall short of covering its current liabilities and hereby provide a sign that the business has cash flow issues.

Solvency performance

Debt to equity ratio

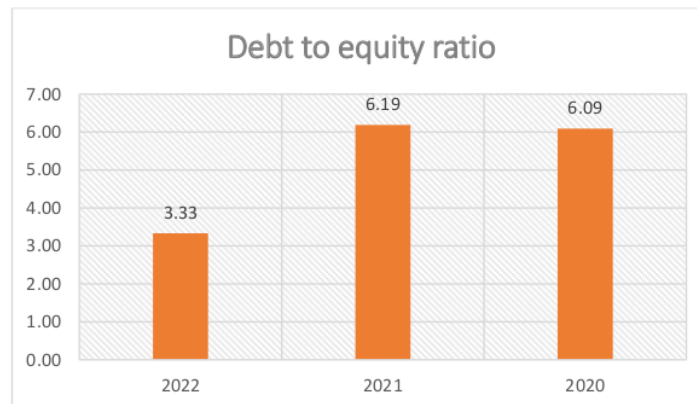


Figure 5: Graph reflecting debt to equity structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: ⁵ The debt-to-equity ratio of FirstGroup Plc has increased from 6.09 in 2020 to 6.19 in 2021, showing that the firm possesses a higher debt structure during this period. Moreover, the value subsequently decreases in 2022 with a structure of 3.33 in comparison to both of its previous periods and hereby reflects that the ¹² company has been able to significantly lower its debt levels during the year. Furthermore, the corporation may still be exposed to some financial risk concerning acquiring a higher debt structure in comparison to its equity figures.

Interest coverage ratio

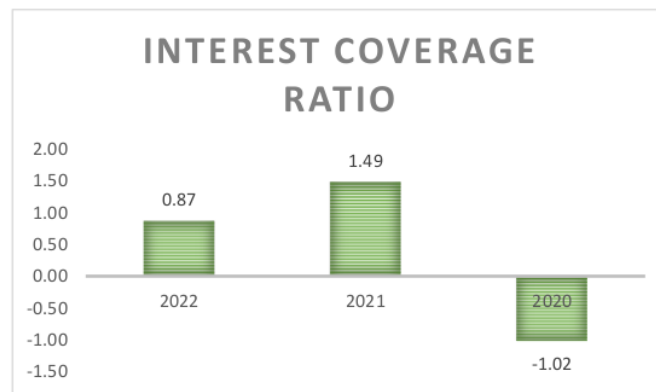


Figure 6: Graph providing interest coverage structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: In 2020, FirstGroup Plc's interest coverage ratio was negative, indicating ⁶ that the business did not make enough money to pay its interest costs. However, this ratio dramatically improved in 2021 and 2022, showing ¹⁰ that the business was able to increase its operating profits and lower its financial risk during both of these periods.

Efficiency performance

Asset turnover ratio

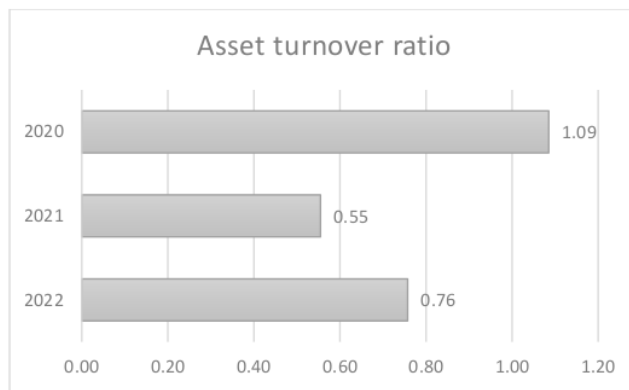


Figure 7: Graph indicating asset turnover structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: FirstGroup Plc's asset turnover ratio increased from 0.55 in 2021 to 0.76 in 2022, demonstrating the company's ability to produce more revenue from its assets. Moreover, this structure identifies as lower than the valuation acquired in the period 2020. The fact that this ratio is still below the industry average suggests that the company may need to increase the effectiveness of how it utilises its assets.

Receivables turnover ratio

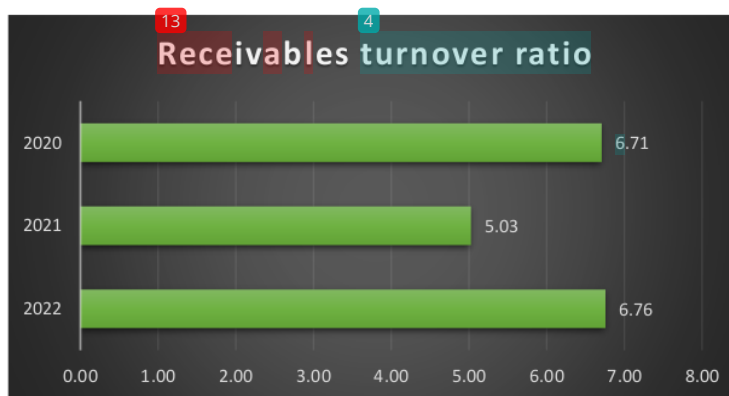


Figure 8: Graph offering receivables turnover structure of First Group Plc over the last 3 years

(Source: Self-created)

Analysis: FirstGroup Plc determines a receivables turnover ratio worth 6.71 in 2020, 5.03 in 2021, and 6.76 in 2022. The Company has been able to collect its receivables more effectively, as evidenced by the fact that the turnover ratio of receivables has greatly increased in 2022. This development is encouraging for the business since it shows that working capital has been managed well during the period in comparison to its initial years.

Overall financial performance of FirstGroup Plc in the past three years

The negative profitability and inadequate liquidity ratios suggest that FirstGroup plc experienced serious financial difficulties in 2020. Moreover, the corporation was able to recover, nevertheless, as seen by the increased profitability and efficiency ratios in 2021 and 2022. In 2022, the business also decreased its debt levels, which is a beneficial trend. However, as shown by the liquidity and solvency ratios, the corporation has trouble covering its present obligations and paying off its debt. This can mean that the business has to concentrate on enhancing its cash flow and further lowering its debt levels. Over the past three years, the company has performed relatively well overall, but there is still an opportunity for growth in some areas.

(iii) Discussing First Group Plc's performance over the last three periods compared with one of its major competitors

Profitability performance

Operating profit margin



Figure 9: Graph indicating comparison of operating profit margin over the last three periods

(Source: Self-created)

Analysis: Over the last three years, the operational profit margin of First Group Plc has fluctuated, ranging from -2% to 5%, whereas it maintains a 3% valuation in the year 2022. On the other hand, National Express Group Plc had a poor operating profit margin that ranged from -19% to -2% in the periods 2020 and 2021 respectively inclusive of -6% during the year 2022. While the profitability ratios of both businesses fluctuated, FirstGroup was adequately able to keep its operating profit margin in 2022 while National Express Group Plc remained in concern.

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Net profit margin

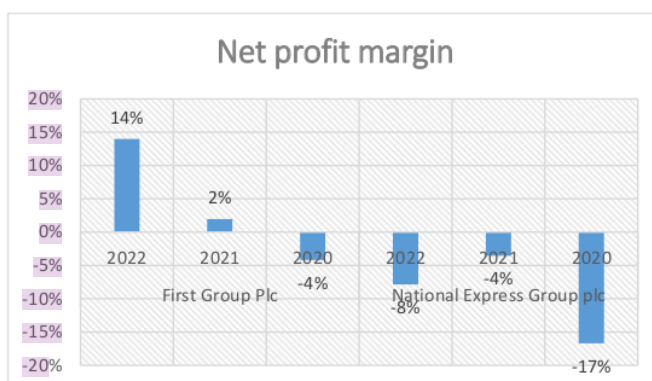


Figure 10: Graph showing a comparison of net profit margin over the last three periods

(Source: Self-created)

Analysis: The net profit margin for FirstGroup increased from -4% in 2020 to 14% in 2022. In comparison to this, throughout the previous three years, National Express Group Plc had a negative net profit margin ranging from -17% to -8%. This in return highlights that First Group Plc subsequently was able to maintain better profitability performance associated with net profit margin than National Express Group Plc over the past three years.

Liquidity performance

Current ratio

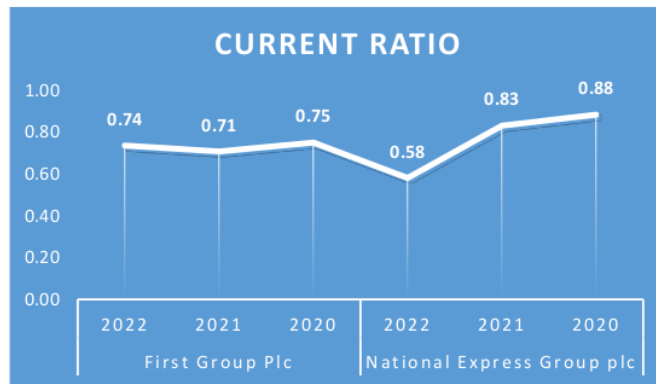


Figure 11: Graph presenting a comparison of the current ratio over the last three periods

(Source: Self-created)

Analysis: In 2022, FirstGroup's current ratio was 0.74, which showed that its current assets did not cover its current obligations. Besides, National Express Group Plc had a current ratio that was 0.58 lower. However, both businesses had current ratios below 1, indicating that both of the business corporations have trouble paying their immediate debts and undertaking the structure of their current assets.

Quick ratio



Figure 12: Graph highlighting comparison of the quick ratio over the last three periods

(Source: Self-created)

Analysis: FirstGroup had a quick ratio of 0.72 in 2022, compared to a quick ratio of 0.56 for National Express Group Plc. This in return suggests that FirstGroup Plc is likely to be more able than National Express Group Plc to cover its immediate obligations by utilising the structure of its quick assets.

Solvency performance

Debt to equity ratio

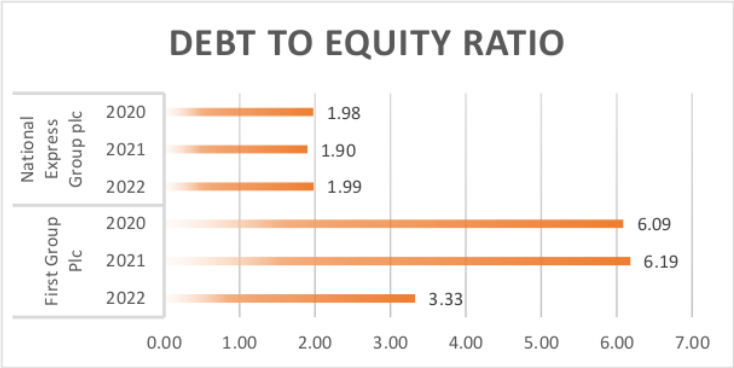


Figure 13: Graph reflecting comparison of debt to equity ratio over the last three periods

(Source: Self-created)

Analysis: In contrast to National Express Group Plc, which had a debt-to-equity ratio of 1.99, FirstGroup Plc had a debt-to-equity ratio of 3.33 during the year 2022. This in return implies that FirstGroup Plc has borrowed more money to fund its activities in comparison to its close rivalry with National Express Group Plc.

Interest coverage ratio

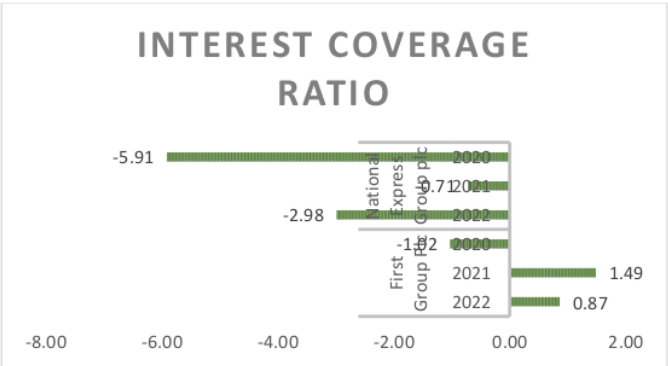


Figure 14: Graph offering a comparison of interest coverage ratio over the last three periods

(Source: Self-created)

Analysis: In 2022, the interest coverage ratio of FirstGroup Plc was under 1, which raises the possibility that the company might remain challenged to repay its interest costs. Over the previous three years, National Express Group Plc also had an interest coverage ratio that was less than 1. As a result, both businesses are subject to trouble in terms of covering their interest costs and hereby need to urgently improve.

Efficiency performance

Asset turnover ratio



Figure 15: Graph presenting a comparison of asset turnover ratio over the last three periods

(Source: Self-created)

Analysis: In 2022, FirstGroup Plc poses an asset turnover ratio of 0.76, as compared to 0.66 for National Express Group Plc. Irrespective of this, FirstGroup poses a better valuation than National Express in both the years 2020 and 2021. This shows that FirstGroup Plc is more effective than National Express Group Plc in the context of producing income from the structure of its assets.

Receivables turnover ratio

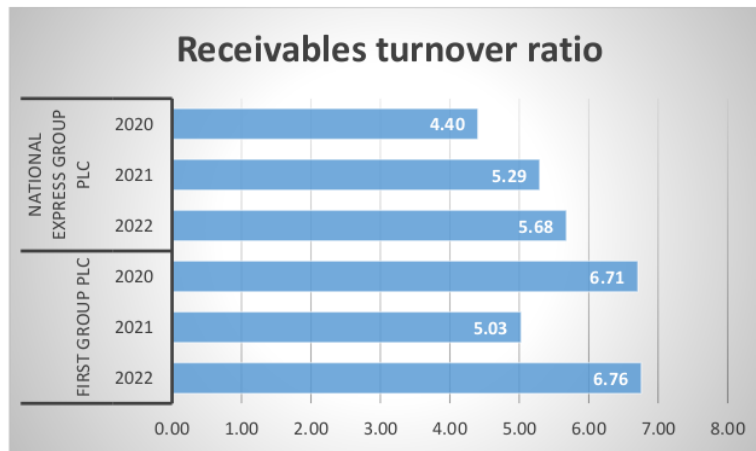


Figure 16: Graph showing a comparison of receivables turnover ratio over the last three periods

(Source: Self-created)

Analysis: Over the previous three years, the receivables turnover ratio of FirstGroup Plc was higher than National Express Group Plc. This subsequently demonstrates that FirstGroup Plc is more effective at recovering its accounts receivable than its competitor.

(iv) Justification concern to support a new joint venture by First Group Plc

Various factors are required to be evaluated to decide whether or not to support a new joint venture by the company's Board of Directors evolving both of its qualitative and quantitative implications. FirstGroup Plc, associated with its financial standpoint, has experienced a difficult financial environment in recent years. The company's revenue has decreased by 3.3% year over year, and for the past three years, the net income has stayed low. Additionally, FirstGroup Plc has a debt-to-equity ratio of 3.33 in the year 2022, which indicates that the firm may be in danger of defaulting on its debt payments due to its high level of debt. Hence, the Board of Directors must carefully consider the prospective joint venture opportunity in light of the company's financial performance. By giving the business access to new markets, technologies, and resources, a successful joint venture has the potential to strengthen the financial position of FirstGroup Plc. Joint ventures do, however, also carry some risk, and the Board of Directors must make sure that this risk is properly handled.

Furthermore, conflicts with the partner company could be one of the main concerns connected to joint ventures. Goal discrepancies, cultural disparities, or management preferences, may all contribute to these concerns. Additionally, joint ventures demand large internal and external investments and might need the organisation to raise more money. If the joint venture fails, the business could sustain large losses that would lower its shareholder valuation. Therefore, the Board of Directors of FirstGroup Plc must perform a thorough risk analysis and ensure that suitable risk management methods are in place before approving the joint venture. Besides, the business must evaluate the joint venture's financial viability and compatibility with its strategic objectives. The evaluation should take into account several variables, such as the potential for increased revenue, cost savings, and profitability.

Hence, it can be said that the Board of Directors of FirstGroup Plc must carefully assess the risks even though a joint venture has the potential to strengthen the company's financial situation. Moreover, the Board of Directors must make sure that the joint venture is in line with the firm's strategic goals and that the necessary risk management plans are in place concerning considerable issues associated with the financial position in the last three years.

Conclusion

Thus it can be concluded that the provided assignment highlights the financial level of FirstGroup Plc for the past three years including comparing the same with its core rivalry. In terms of profitability and efficiency ratios over the previous three years, it indicates that FirstGroup outperformed National Express Group Plc. However, FirstGroup's liquidity and solvency ratios were lower than National Express highlighting at they would have trouble fulfilling their immediate and long-term obligations. Furthermore, an adequate risk management plan can ensure the company demonstrates a new joint venture and hereby enhances its performance in the future.

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