ACC10007 Financial Information for Decision Making

Group Assignment - Company Analysis

Harvey Norman Holdings Limited Analysis

Prepared By Group 3

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1.0 Executive Summary

The following report is a financial statement study on Harvey Norman Holdings Ltd. We have examined the firm's performance using accounting formulas and relevant ratios. Our analysis covers the three-year period FY19, FY20 and FY21. Harvey Norman Holdings Ltd is a retailer of computerized communications, home and office products, tiles, electronic goods, kitchen appliances and furniture. The company markets its products under the brands FISHER & PAYKEL, Breville, Apple, SONOS, Electrolux. Today there are 192 franchised complexes in Australia and 107 company-operated stores overseas and more than 6540 team members across the world. (HN report 2021)

The aim of this report is to gain an understanding of the financial information to evaluate Profitability, Operations' Efficiency, Liquidity, and Gearing to make recommendations for the company. With the analysis of the company's cash flow statements, we discovered that the company could constantly generate a positive operating cash flow. This is good for the solvency of the company as it can generate cash to pay the financing costs. With the analyses of other financial statements, we discovered that the company's performance was considered superior within its own industry. In terms of its social responsibility, the company is considered a socially responsible company as it was constantly giving back to the community and taking care of all stakeholders in multiple ways during the three-year period. In conclusion, It can be seen that the Harvey Norman's performance was above the standard.

Finally, we gave recommendations based on our analysis on how the company can improve its efficiency in selling goods since the two main problems facing the company are the low quick ratio and high days inventory.

2.0 Company and Industry Background

2.1 Brief company profile of Harvey Norman

Harvey Norman Holdings Ltd (Harvey Norman) is a global retailer that concentrates on consumer electronics, furniture, and appliances. The headquarters of Harvey Norman are in Sydney, New South Wales, Australia. A range of items that this company features are computerized communications, home and office products, tiles, carpets and flooring, bedding and Manchester, kitchen appliances, small appliances, and so on. This company franchises Harvey Norman, Domayne, and Joyce Mayne stores in Australia and company-operated stores, which are widely situated in many different countries, including New Zealand, Ireland, Slovenia, Croatia, Malaysia, and Singapore. Harvey Norman is also involved in real estate investment, consumer finance, and media placement. Because of the nature of the franchise system, the culture of Harvey Norman is multifaceted and difficult to define. Yet, their ultimate mission is to provide the best product range at the best price, accompanied by best-in-class service, and most importantly, the prioritization of their customers is determined through their well-performed employees, who will satisfy the company's goal of becoming Australia's market-leading retailer of home appliances, technology, furniture, and bedding.

2.2 Industry

The Australian retail industry contributes significantly to the country's economy, with an annual turnover of approximately AUD 329.6 billion in FY19 and a Compound Annual Growth Rate of 5% (Mordor Intelligence 2022). However, the effects of the Covid-19 pandemic have significantly altered the nature of the industry. The lockdown in FY20 and FY21 has dramatically reduced direct sales in stores but has instead recorded an increase in online turnover of retailers who are able to adapt to new environments, taking advantage of the urbanized society in which 90% of the population lives in large cities and their suburbs.

Harvey Norman focused on Electrical Retailing with the aim of expanding its market and attracting more customers. Its Australian retail chains include space furniture, Ariston appliances, and Domayne. All the retailing goods are present and available at numerous stores across Australia, New Zealand, Europe, Asia, and online platforms with worldwide shipping options.

In terms of performance, Harvey Norman's products are decent, with an overall rating of 3.0. (Harvey Norman, 2022) If we compare this company with one of the largest competitors within the Electrical Retailing field, JB Hi-Fi, with an overall rating of 2.9 in terms of products quality, it is notable that Harvey Norman is somehow on par with the well-known JB Hi-Fi, when it comes to the quality of products. This further underscores the fact that Harvey Norman is also one of the huge companies in the Electrical Retailing industry.

3.0 Analysis and Interpretation of Financial Ratios

Harvey Norman Holding Ltd			
	2019	2020	2021
Profitability			
Return on equity	**13.33%**	**14.63%**	**23.07%**
Return on assets	**12.25%**	**12.46%**	**18.92%**
Gross Profit Margin	**32.38%**	**32.23%**	**33.59%**
Net Profit Margin	**18.30%**	**21.18%**	**30.59%**
Cash Flow to Sales	**16.69%**	**46.06%**	**19.65%**
Asset Turnover	**47.65%**	**43.19%**	**44.29%**
Liquidity			
Current Ratio	**1.62 times**	**1.65 times**	**1.51 times**
Quick Ratio	**1.18 times**	**1.15 times**	**1.09 times**
Cash Flow Ratio	**0.41 times**	**1.35 times**	**0.47 times**
Asset Efficiency			
Inventory Turnover Period	**89.54 days**	**92.46 days**	**86.47 days**
Days in Debtors	**42.52 days**	**42.69 days**	**30.50 days**
Activity Cycle	**132.06 days**	**135.15 days**	**116.97 days**
Capital Structure (Solvency)			
Debt Ratio	**33.36%**	**40.34%**	**41.66%**
Debt to Equity Ratio	**50.06%**	**67.62%**	**71.41%**
Equity Ratio	**66.64%**	**59.66%**	**58.35%**
Debt Coverage Ratio	**1.88 times**	**1.48 times**	**3.01 times**
Interest Coverage Ratio	**20.96 times**	**12.06 times**	**24.65 times**

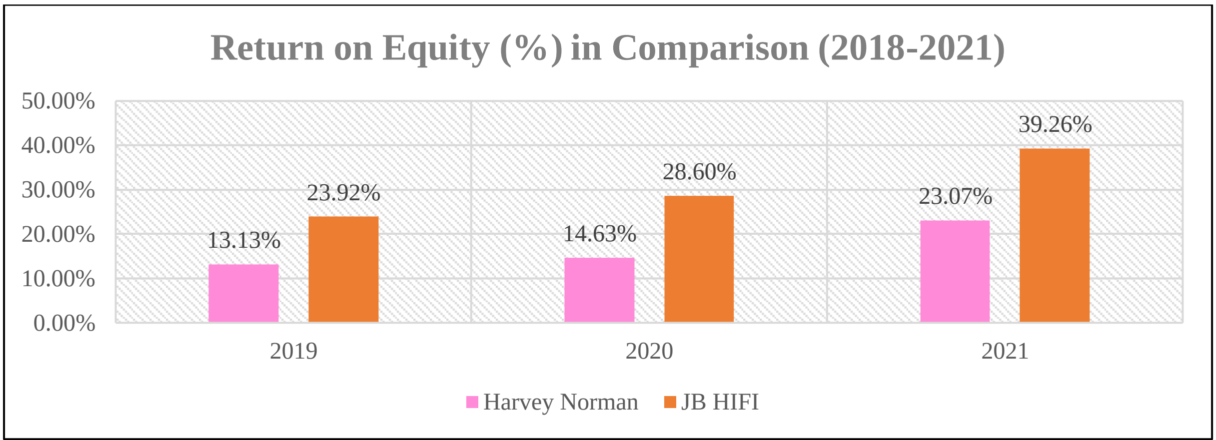
Table 1 Summary of calculated ratios for Harvey Norman Holding Ltd for all three financial years (2019-2021)

3.1 Profitability

Harvey Norman Holding Ltd.'s probability analysis displays the company's ability to generate profit and return on investment as it is among the prime indicators of a company's financial health.

3.1.1 Return on Equity (ROE)

Harvey Norman's return on equity (ROE) displays the company's efficiency in utilizing its equity to earn profit. Below is the percentage of the profit generated for its owners relative to average equity of the company.



Graph 1 Return on Equity (ROE) for Harvey Norman Holding Ltd versus JB HIFI competitor over 3 years (2019-2021).

The test of return on equity (ROE) measures the output (profit) produced by the shareholders' investment in Harvey Norman Holding Ltd. for their shareholders over the course of the financial year. The ratio tells us the amount of profit available to the company's owners for every $1 of average shareholder equity. All things being equal, a higher ratio becomes advantageous for the company as it indicates efficiency in generating profits from their funds employed.

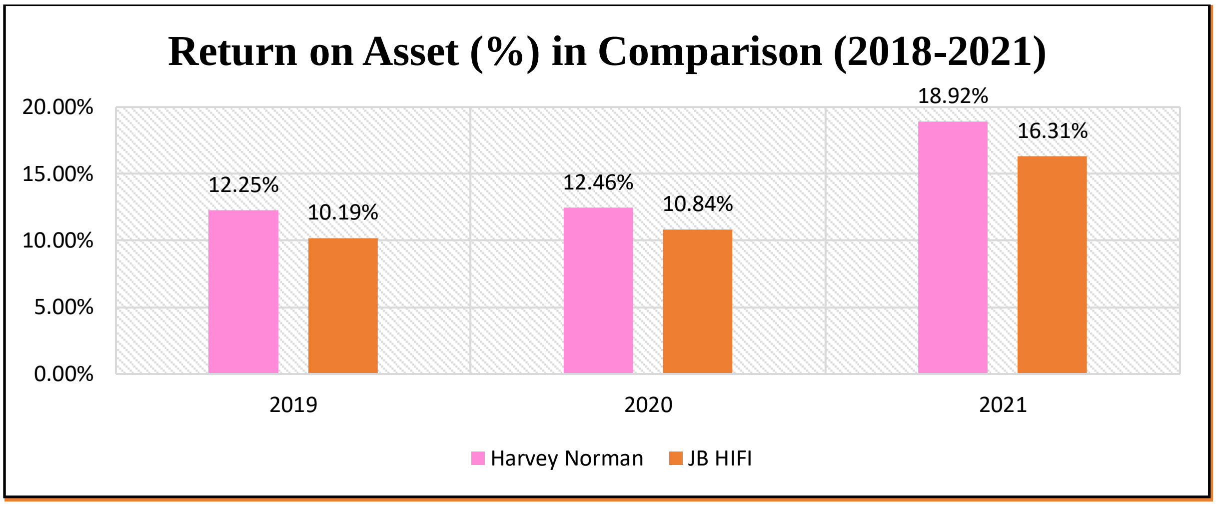
Graph 1 shows an upward trend in ROE over the three financial years. FY20 saw a slight improvement from 13.13% in FY19 to 14.63% and saw a bigger improvement in FY21 being 23.07%. The almost 8.44% jump in the ROE ratio was caused by a big increase in profits after tax and interest from FY20 to FY21. In FY21, the company earned increased revenues from product sales and services from franchisees operations and other income items such as revaluation increment on Australian freehold investment properties and overseas controlled entity. Comparing the revenue produced in FY20 to FY21, Harvey Norman improved positively across all their global chains especially in Australia where the buying trends are of home-focused products. This factor is driven by increased remote working and learning, strong demand for kitchen appliances, increase demand indoor and outdoor home entertainment products.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, it is clear that the entity is moving in the right direction.

In comparison to competitor JB HIFI, Harvey Norman's ROE percentages are way behind for all three financial years which tells us that JB HIFI is more efficient at generating returns to shareholders than Harvey Norman.

3.1.2 Return on Assets

Harvey Norman's return on asset (ROA) displays the company's efficiency in utilizing its assets to earn profit. This ratio informs us the amount of profit made for every $1 of average asset employed. The higher this ratio, the better it is because it shows good management generating profits from assets.



Graph 2 Return on Asset (ROA) for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

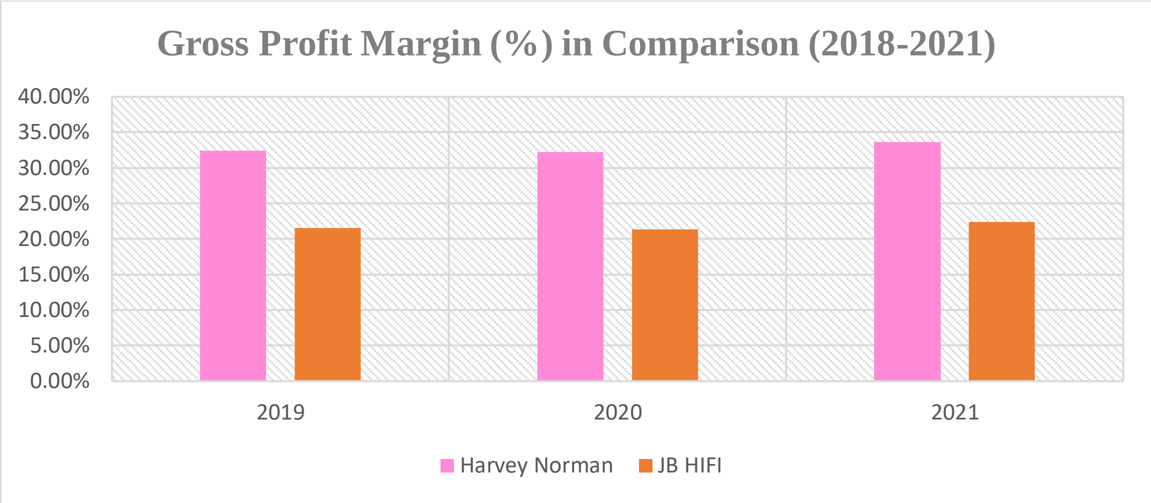
Graph 2 shows a positive trend in ROA over the three financial years. The ratio increased slightly from 12.15% in FY19 to 12.46% in FY20 but saw a 6.42% leap in FY21 with 18.92%. This was contributed by the company's increased earnings from product sales and services revenues from franchisees operations and other income items that similarly boosted the company's ROE in FY21.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, it is clear that the entity is moving in the right direction.

In comparison to competitor JB HIFI, Harvey Norman's ROA percentages are more superior for all three financial years which tells us that Harvey Norman is more efficient at generating returns from their assets than JB HIFI.

3.1.3 Gross Profit Margin

Harvey Norman's gross profit margin displays the company's efficiency in turning its sales revenue to gross profit. This ratio informs us the amount of gross profit earned for every $1 of revenue earned from sales. The higher this ratio, the better it is because it shows good management generating gross profits from sale revenue.



Graph 3 Gross profit margin for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

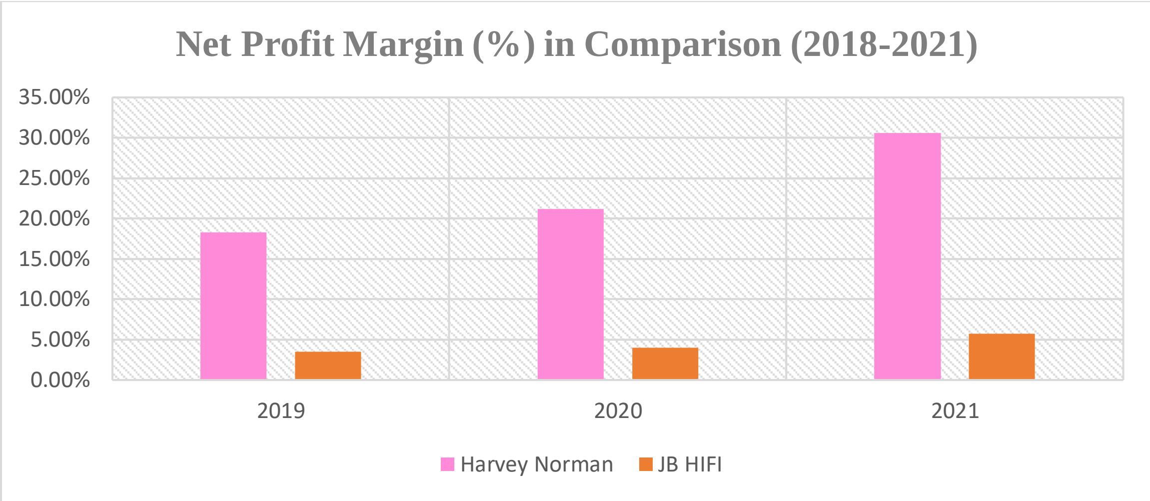
Graph 3 shows a small decrease in gross profit margin of 0.15% from 32.38% in FY19 to 33.59% in FY20 but it increased to 33.59% in FY21, higher than what it was two years ago. This recovery is the result of increased sales in FY21 as compared to the year before.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, it is clear that the entity is moving in the right direction.

In comparison to competitor JB HIFI, Harvey Norman's gross profit margin ratios are superior for all three financial years which tells us that Harvey Norman is more efficient at generating gross profits from sale revenue than competitor JB HIFI.

3.1.4 Net Profit Margin

Harvey Norman's net profit margin or profit margin displays the company's efficiency in turning its sales revenue to net profit (profit after deducting operating expenses). A higher ratio indicates that Harvey Norman's management is becoming more efficient in yielding profits from sales revenue.



Graph 4 Net profit margin for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

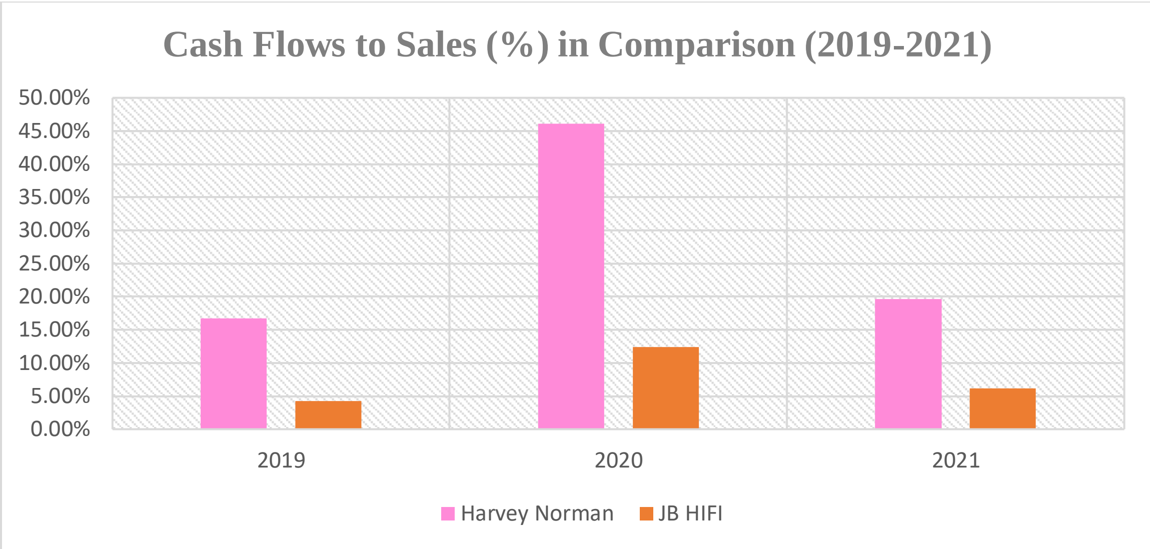
Graph 4 shows a steady increase in net profit margin, from 18.30% in FY19 to 21.18% in FY20 and finally 30.59% in FY21. This exponential rise from FY20 to FY21 was contributed by the company's boom in product sales and services revenues from franchisees operations and other income items that similarly was the reason of the company's ROE and ROA increase in FY21.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, it is clear that the entity is moving in the right direction.

In comparison to competitor JB HIFI, Harvey Norman's net profit percentages are far superior on all three financial years. This proves Harvey Norman's better management in yielding profits from sales revenue when compared to JB HIFI.

3.1.5 Cash Flow to Sales

Harvey Norman's cash flow to sales ratio displays the company's efficiency in turning its sales revenue to produce operating cash flows. This ratio measures the amount of cash generated by each $1 revenue generated by sales. The higher this ratio, the better because it is most desirable for a company to generate greater amounts of cash.



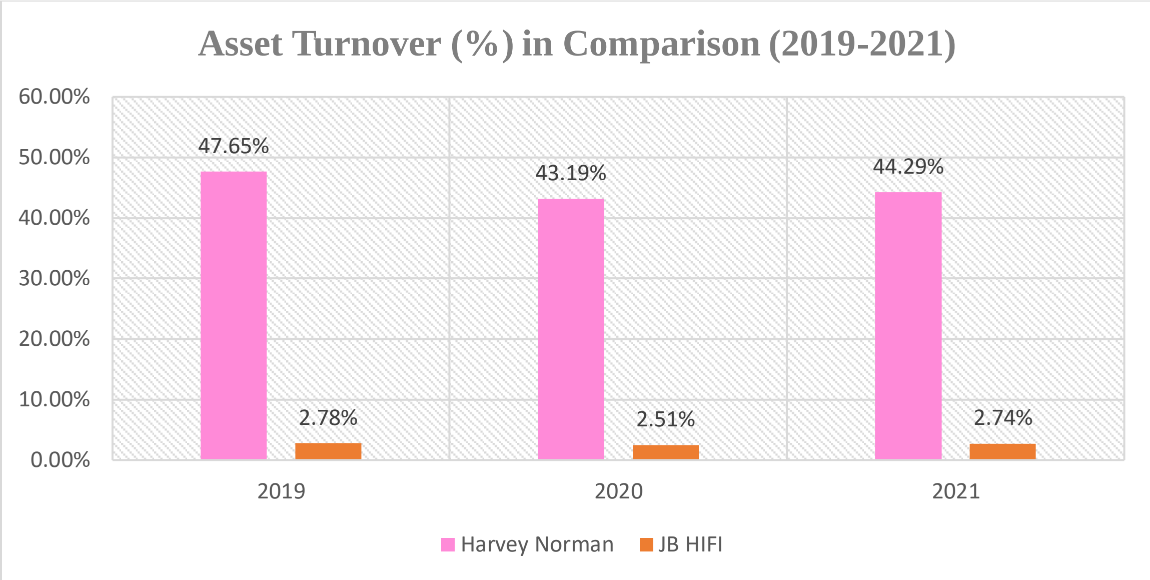
Graph 5 Cash flows to sales for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Graph 5 shows the cash flow to sales ratio over the three financial years. In FY20, the ratio had almost doubled from 16.69% in FY19 to 46.06%. The exponential increase from FY19 to FY20 was caused by a huge increase in net cash flows from operating activities such as receipts from franchisees and customers and higher interest received. The following year, the ratio drops drastically to 19.65% in FY21 but still well above where it was two years ago. The great difference was caused by a decrease in net receipts from franchisees, higher payments to suppliers and employees, higher GST payments, lower interest received, and higher income tax paid which resulted in a 26.41% drop in this ratio.

JB HIFI too showed similar pattern in growth; however, the competitor is still behind Harvey Norman's superiority in numbers. Through all three financial year, Harvey Norman leads JB HIFI in generating cash from sales revenue.

3.1.6 Asset Turnover

Harvey Norman's asset turnover ratio displays the company's efficiency in generating sales revenue from existing current and non-current assets. This ratio indicates the amount of dollars of sales earned for every $1 of asset. A bigger ratio is a good indication that a company's management efficient at utilizing their assets to make sales.



Graph 6 Asset turnover for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Graph 6 shows that Harvey Norman's asset turnover ratio dropped from 47.65% in FY19 to 43.19% in FY20. From the ratio's equation, its seen that there was a significant increase in assets, but sales revenue did not follow suit in FY20. The following year made a small improvement by 1.10% as the sales revenue for FY21 improved from the previous year but asset growth was still on the rise.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, it is the safest to say that the growth has been stagnant.

This is also the case for competitor JB HIFI. JB HIFI has maintained almost the same level of asset turnover ratio for three financial years. However, Harvey Norman is generally more superior than JB HIFI because of its higher asset turnover ratios.

3.1.7 DuPont Relationship

DuPont relationship improved ROA can be explained thorough the use of the DuPont formula.

$$\boxed{Return\ On\ Asset = \ Profit\ Margin\ x\ Asset\ Turnover}$$

The improved ROA has been driven by both an improved efficiency of sales volume as well as improved efficiency through earning greater profits on every sale.

Year	2019	2020	2021
Return on Assets	**12.25%**	**12.46%**	**18.92%**
Profit Margin	**18.30%**	**21.18%**	**30.59%**
Asset Turnover	**47.65%**	**43.19%**	**44.29%**

Table 2 DuPont ratio components (ROE, Profit Margin & Asset Turnover) for 3 years (2019-2021).

2.2 Liquidity

Harvey Norman Holding Ltd.'s liquidity analysis displays the company's short term ability to pay off debts using their quantity of assets to generate cash.

3.2.1 Current Ratio

Harvey Norman's current ratio indicates the amount of existing current assets per current liabilities. It also measures how efficiently a firm covert its current assets and generate cash (Wijaya & Sedana, 2020).. A good current ratio considers between 1.5 to 2, and here the current ratio of this business achieves this benchmark. A bigger ratio is a good indication that a company's management efficient at utilizing their assets to make sales.

Harvey Norman Holdings Ltd	
Year	Figure
2019	1.62 times
2020	1.65 times
2021	1.51 times
JB HI-FI Limited	
Year	Figure
2019	1.38 times
2020	0.93 times
2021	1.07 times

Table 3 Current ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Table 3 reflects the trend that from FY19 to FY20, the current ratio increases, but in FY21, it decreases and becomes 1.51 from 1.65. The reason for the decrease is the increasing amount of current liability as compared to current assets.

Based on the internal over the three financial years, Harvey Norman is becoming weaker in producing cash from its assets overtime.

Similarly with competitor JB HIFI, their performance dropped in FY20 and only a small recovery the following year. However, Harvey Norman has superior numbers in comparison which makes Harvey Norman better than JB HIFI because they have a greater level of cash producing assets.

3.2.2 Quick Ratio

The short-term liquidity position of an entity can be measured by evaluating the quick ratio, and it also reflects how efficiently a firm covert its current assets and generate cash (Wijaya & Sedana, 2020). An excellent quick ratio considers greater than 1, and here the quick ratio of this business achieves this benchmark.

Harvey Norman Holdings Ltd	
Year	Figure
2019	1.18 times
2020	1.15 times
2021	1.09 times
JB HI-FI Limited	
Year	Figure
2019	0.42 times
2020	0.38 times
2021	0.38 times

Table 4 Quick ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

A decreasing trend has been noticed in the quick ratio position of Harvey Norman and reflects a decrease of 1.16 to 1.09 from FY to FY21. respectively. The reason for the decrease is the increasing amount of closing stock or inventories in business and the increasing amount of current liability compared to the existing assets.

Based on the internal over the three financial years, Harvey Norman's producing lesser cash from its assets overtime.

Competitor JB HIFI's performance dropped in FY20 and remained stagnant the following year. However, Harvey Norman still has superior numbers in comparison which makes Harvey Norman better than JB HIFI because they have a greater level of cash producing assets to service their current liabilities.

3.2.3 Cash Flow Ratio

The number of times an entity pays off its current debts by generating cash in the same period. It also indicates whether the normal operations of the firm are sufficient or not to cover its short-term obligations (Rizki & Kaur, 2022). An excellent cash flow ratio considers greater than 1 and below 1 reflects short-term cash flow of the business is problematic.

Harvey Norman Holdings Ltd	
Year	Figure
2019	0.41 times
2020	1.35 times
2021	0.47 times
JB HI-FI Limited	
Year	Figure
2019	0.33 times
2020	0.73 times
2021	0.41 times

Table 5 Current ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

According to the trend, the cash flow of Harvey Norman gets increased from FY19 to FY20, but in FY21 it again decreased from 1.35 to 0.47, respectively. The reason for the decrease is lower cash from operations in the business. It is difficult to internally compare Harvey Norman's performance based on fluctuating numbers.

Competitor JB HIFI also experienced similar fluctuations. Their ratio increased in FY20 but dropped again following year. However, Harvey Norman still has superior numbers in comparison which makes Harvey Norman better than JB HIFI because they have greater ability to cover their current obligations from their operating activities cash flows.

3.3 Asset Efficiency

Harvey Norman Holding Ltd.'s asset efficiency analysis displays the company's speed of generating cash from their assets.

3.3.1 Inventory Turnover Period

Harvey Norman's inventory turnover period indicates the period on average that they sell their inventory in a financial year. The higher the ratio, the quicker Harvey Norman sells their inventory. Faster inventory turnover also equates to faster cash inflow.

Harvey Norman Holdings Ltd	
Year	Figure
2019	89.54 days
2020	92.46 days
2021	86.47 days
JB HI-FI Limited	
Year	Figure
2019	58.27 days
2020	47.67 days
2021	44.14 days

Table 6 Inventory turnover period for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

According to table 8.3.3, days inventory decreased by approximately 3 days over the period. It indicates that the average period it takes to sell inventories was reduced by 3 days. This is due to the increases in the cost of sales.

In comparison to JB HIFI, Harvey Norman is worse off because the JB HIFI reports smaller turnover period numbers. JB HIFI is faster at selling their inventories to generate cash than Harvey Norman.

3.3.2 Days in Debtors

Harvey Norman's debtors turnover period indicates the period on average that the company's receivable accounts settle their ownings to the company. The higher the ratio, the faster Harvey Norman's cash inflow from their debtors. It also reflects Harvey Norman's efficiency in collecting debts.

Harvey Norman Holdings Ltd	
Year	Figure
2019	42.52 days
2020	42.69 days
2021	30.50 days
JB HI-FI Limited	
Year	Figure
2019	28.34 days
2020	27.35 days
2021	22.61 days

Table 7 Debtors turnover period for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Days debtors reduced from 42.52 days in FY19 to 30.50 days in FY21. In FY21, it took the corporation around 30.50 days to collect cash from credit customers on average. Given that its credit terms are 30 days, the number is favourable. As the smaller, the number the better, the company could turn its account receivables into cash at a faster rate.

In comparison to JB HIFI, Harvey Norman is worse off because the JB HIFI reports smaller turnover period numbers. JB HIFI is faster at collect from their trade receivables than Harvey Norman.

3.3.3 Activity Cycle

The firm's activity cycle refers to the sum of days of Inventory and days of debtors.

Harvey Norman Holdings Ltd	
Year	Figure
2019	132.06 days
2020	135.15 days
2021	116.97 days
JB HI-FI Limited	
Year	Figure
2019	86.61 days
2020	75.02 days
2021	66.75 days

Table 8 Activity cycle for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

The activity cycle dropped by approximately 10 days over the three-year period. The shorter the cycle, the better because the company spends less time selling its inventories and collecting cash. Consequently, this leads to a shorter time period to be out of cash.

Comparing Harvey Norman to JB HIFI, it is evident that JB HIFI has a more efficient and faster activity cycle. JB HIFI is truly more superior based on efficiency in its ability to convert asset into cash reflected by their better inventory turnover figures (almost twice faster than Harvey Norman) and collecting money (almost twice faster than Harvey Norman).

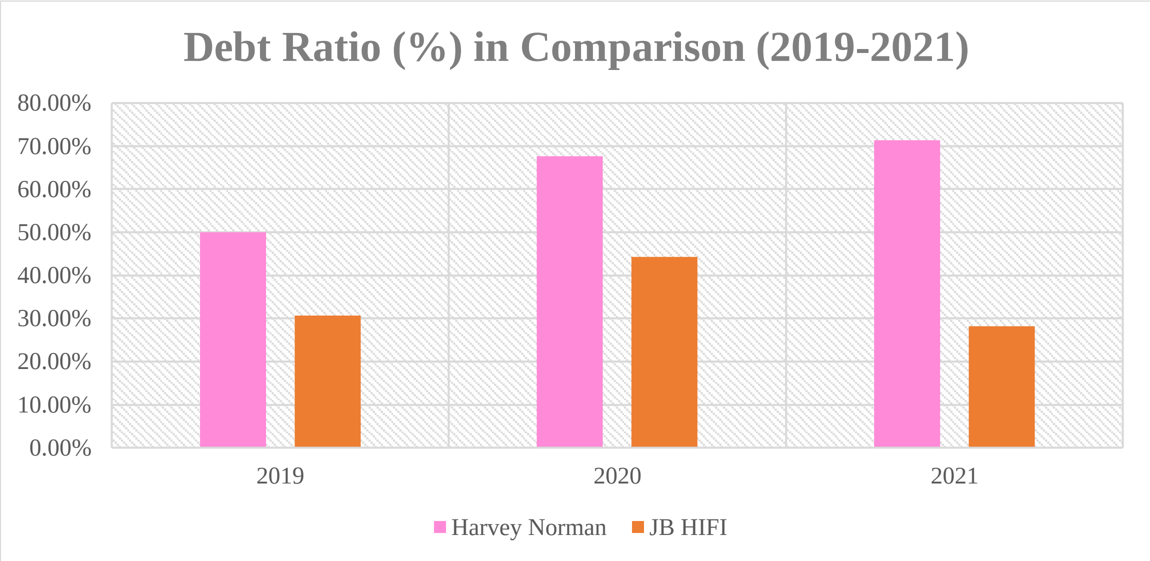
3.4 Capital Structure (Solvency)

Harvey Norman Holding Ltd's solvency analysis displays the company's long-term ability to service its debts and survive as a business.

3.4.1 Debt Ratio

Harvey Norman's debt ratio indicates the total dollars of liabilities that exist per dollar of assets.

A higher ratio puts the company at a greater risk as there would be more debts to be serviced for the same level of total funding. Theory suggests that a percentage exceeding 50% means that an entity relies more on debts to finance their assets but if the ratio is lesser than 50% that means an entity relies more on equity to finance their assets.



Graph 7 Debt ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

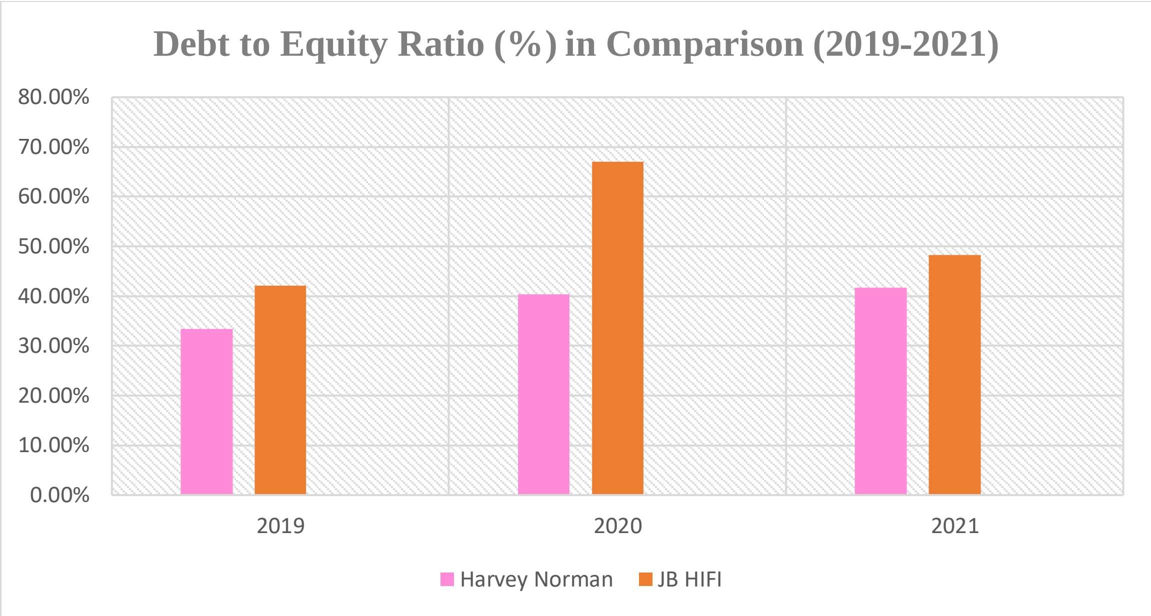
Graph 7 shows that Harvey Norman's debt ratio continues to rise over the three years. In FY19, the debt ratio was 50.06% and jumped to 67.62% in FY20. Later the following year, the debt ratio continued to rise to 71.41% in FY21.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, the increasing above 50% ratios suggests that the company will be facing greater risk over the three years because it is becoming strongly reliant to debts.

In comparison to competitor JB HIFI, Harvey Norman's gearing ratios are higher for all three financial years which tells us that Harvey Norman is higher likely to face more risk because they have more debt than JB HIFI.

3.4.2 Debt to Equity Ratio

Harvey Norman's debt to equity ratio indicates the total dollars of existing debt per dollar of equity financing. It simply shows how many much debt it takes to fund one dollar of assets. Theory suggest that is this ratio exceeds 100% that would mean an entity relies greater upon debt funding than equity funding. The higher this ratio, the higher risk it will bring to the company as there would be more debt relative to equity.



Graph 8 Debt to equity ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

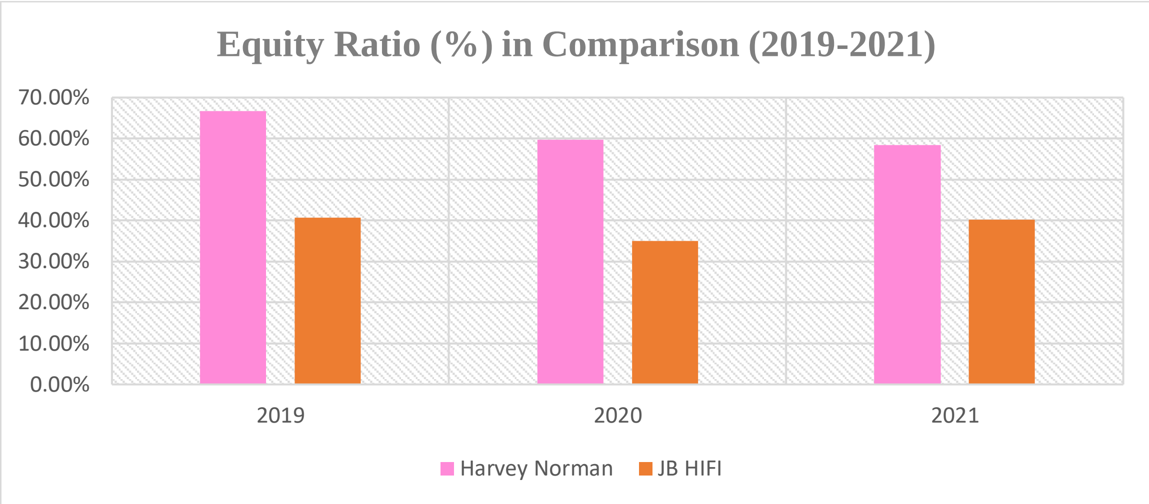
Graph 9 shows that Harvey Norman's debt to equity ratio continues to rise over the three years. In FY19, the debt-to-equity ratio was 33.36% and increased to 40.34% in FY20. Later the following year, the debt ratio continued to rise to 41.66% in FY21.

Based on the internal trends of the Harvey Norman's ratios over the three financial years, the increasing ratio suggests that the company will be facing greater risk over the three years because there is higher reliance in debts.

In comparison to competitor JB HIFI, Harvey Norman's net profit percentages are more controlled throughout the three years. Harvey Norman managed to keep their ratio stagnant (30~40%) when competitor JB HIFI's debt to equity ratio rose up to 67% in FY20. This tells us that competitor JB HIFI will be facing greater financial risk than Harvey Norman.

3.4.3 Equity Ratio

Harvey Norman's equity ratio indicates the amount of assets funded by its equity. It simply shows how many dollars does it takes from equity to fund one dollar of assets. Theory suggest that is this ratio totals below 50% cent, then the entity relies greater upon debt funding over equity funding.



Graph 9 Equity ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Graph 9 shows that Harvey Norman's equity ratio slowly declines over the three financial years. The ratio was 66.64% in FY19, decreased to 59.66% in FY20 and finally to 58.35% in FY21. This downward trend suggests that Harvey Norman is becoming more reliant on debts.

Harvey Norman's equity ratios are higher compared to JB HIFI's stagnant ratios. This observation tells use that JB HIFI relies more on shareholder funds unlike Harvey Norman whose more reliant on debts. This puts Harvey Norman at greater risk compared to JB HIFI.

3.4.4 Debt Coverage Ratio

Harvey Norman's debt coverage ratio indicates the total dollars of long term debt per dollar of operating cash flow. It simply shows the amount of debt relative to operating activities. This ratio indicates how long it will the company to service their long-term debts at its present level of business operations. It is more ideal to have a bigger # of times as that would show that an entity has more cash to pay their debts.

Harvey Norman Holdings Ltd	
Year	Figure
2019	1.88 times
2020	1.48 times
2021	3.01 times
JB HI-FI Limited	
Year	Figure
2019	1.92 times
2020	0.71 times
2021	1.06 times

Table 9 Debt coverage ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Table 9 shows that Harvey Norman's fluctuating debt coverage ratio over the three financial years. The ratio slightly deteriorated in FY20, dropping from 1.88 times in FY19 to 1.48 times but recovered twice as much in FY21 with a ratio of 3.01 times. Although the ratio dropped in its second year, the recovery proves that Harvey Norman as an entity is becoming more capable of servicing their long term debts which puts them at a lower risk overall.

JB HIFI shows a similar trend in fluctuating ratio but their numbers are more dramatic in comparison to Harvey Norman's. Based on the numbers, Harvey Norman is more superior than JB HIFI in servicing their debts. This proves that Harvey Norman will face lower financial risk than its competitor.

3.4.5 Interest Coverage

Harvey Norman's debt to equity ratio indicates the total dollars of existing debt per dollar of equity financing. It simply shows the amount of earnings available to cover the company's interest. The bigger this ratio, the better of the entity.

Harvey Norman Holdings Ltd	
Year	Figure
2019	20.96 times
2020	12.06 times
2021	24.56 times
JB HI-FI Limited	
Year	Figure
2019	26.13 times
2020	13.85 times
2021	30.46 times

Table 10 Interest coverage ratio for Harvey Norman Holding Ltd versus JB HIFI over 3 years (2019-2021).

Table 10 shows that Harvey Norman's interest fluctuating coverage ratio over the three financial years. The ratio deteriorated in FY20, dropping from 20.96 times in FY19 to 12.06 times but recovered in FY21 with a ratio of 24.56 times. Although the ratio dropped in its second year, the recovery proves that Harvey Norman as an entity is on the right track.

JB HIFI shows a similar trend in fluctuating interest coverage ratio but with stronger overall figures which puts Harvey Norman at greater risk.

5.0 Analysis and interpretation of Cash Flow Statements

5.1 Operating Activities *

In FY21, net cash flow operations decreased by $513,095 million due to payment term normalizing. Despite a slight drop in FY21, it still observed an overall dramatic increase by 1.45 times since FY19. This trend can be explained by the growth of money received from customer receipts changed throughout the period. According to the financial report in FY21, COVID- 19 has had a significant impact on the entity as customer spending increased (Harvey Norman 2021).

The cashflow ratios from FY19 – FY21 were 1.62, 1.65 and 1.51 respectively. These measures measure the number of times a company can pay off current debts with cash generated within the same period from operating activities. Therefore FY20 had a better performance since $ 1.65 was generated for every dollar of liabilities, compared to ratios in other years.

*see Appendix 8.4.1

5.2 Investing Activities *

In contrast to operating activities, net cash outflow from investing witnessed an increase of $70,760 million in FY20 before rising again to $254,116 in FY21. During the period, the payments for property, plant and equipment, and intangible assets dropped to $93,905 million at first due to store closing and lock-down phases but soon bounced back to $100,300 million in FY21. The proceeds from sales of these categories contributed to the small change in overall outflow throughout the ending phase.

*see Appendix 8.4.2

5.3 Financing Activities *

The increase in the net cash outflow from financing activities reflects the repayment of borrowings, and increased dividend payments of $150,978 million. Lease payment also made a major contribution to the financial net cash outflow from financing activities, which dramatically rose from $124,770 million in FY20 to 130,849 in the next period respectively.

Overall, the net cash from financing activities constantly made a significant increase of 1.36 times in figures, from $246,289 before reaching $335,472 million in 2021, which indicates the funding and repayments capability of Harvey Norman Company during the period.

During the FY19 and FY20 period, the beginning account of cash and cash equivalent witnessed an upscale of nearly 20%, from $125,463 to 185,816 million, which was subsequently interrupted by a dramatic soar to 294,446 million. Similarly, the ending account rocketed from $185.816 million to $248,727 million by the end of the period.

*see Appendix 8.4.3

6.0 Assessment of other relevant information

In order to increase the level of productivity and operational efficiencies, the company continuously improved their technology. For instance, it is constantly modifying the system, such as Click and Collect, which has positively impacted these segment results.

Harvey Norman also focusing on the environment factor for the company. They always try to reduce their waste and recycle as much as possible. As an environmentally conscious organization, the company collaborates with their customers, suppliers, governments, and the larger community to achieve the best possible environmental outcomes. This includes reducing wastes such as a TV recycling programmed. They are constantly working to develop, review, and improve our environmental practices, procedures, and performance. Moreover, all packaging has been optimized, and the collection of old ones has been increased while implementing a sustainable packaging strategy.

Lastly, the company also gives back to the community and treats the employees fairly. For instance, Harvey Norman rewards employees that are more engaged and who are seeking to advance the organization's interest (Sourizaei et al.,2011). It gives discounts on retail products. As well as after 6 months of employment employees are eligible for a salary packaging system which is from the pre-tax salary.

7.0 Summary and Conclusion

It is possible to conclude that Harvey Norman is in good hands after investigating and analyzing various aspects of the company. The fact that the business is expanding and that the company is still heavily investing in assets demonstrates the strength of their cash reserves. They have grown their integrated retail, franchise, property, and digital businesses significantly. In addition, Harvey Norman improved across all its global chains, particularly in Australia, where purchasing trends favor electrical products. By increasing level of remote working and learning, strong demand for electrical appliances, increased demand for indoor and outdoor home entertainment products in system sales under experienced management are driving this factor. As a result, the company's revenue in FY21 will be $3.11 billion, up from $2.32 billion in FY20. Furthermore, the company's leaders have defined their clear vision for the future, paying off debts and thus aiming to turn the company into a symbol of success.

However, because of the increased reliance on debts, the increasing ratio suggests that the company will face greater risk over the next three years. It is also suggested to Harvey Norman's management that they should sell fixed assets that are not generating cash in their business, control their overhead expenses, and ultimately change their payment cycle in order to improve their liquidity position. Cutting unnecessary expenses and negotiating for shorter payment terms can also help to improve the cash flow ratio.

8.0 Appendices

8.1 Declaration and Statement of Authorship

Appendix A
Declaration and Statement of Authorship

All students must agree to the following declaration when submitting assessment items

1. I/we have not impersonated, or allowed myself/ourselves to be impersonated by any person for the purposes of this assessment.
2. This assessment is my/our original work and no part of it has been copied from any other source except where due acknowledgement is made.
3. No part of this assessment has been written for me/us by any other person except where such collaboration has been authorised by the lecturer/teacher concerned.
4. I/we have not previously submitted this work for a previous attempt of the unit, another unit or other studies at another institution.
5. I/we give permission for my/our assessment response to be reproduced, communicated, compared and archived for plagiarism detection, benchmarking or educational purposes.

I/we understand that:

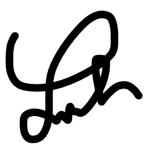
- Plagiarism is the presentation of the work, idea or creation of another person as though it is your own. It is a form of cheating and is a very serious academic offence that may lead to exclusion from the University.
- Plagiarised material may be drawn from published and unpublished written documents, interpretations, computer software, designs, music, sounds, images, photographs, and ideas or ideological frameworks gained through working with another person or in a group.
- Plagiarised material can be drawn from, and presented in, written, graphic and visual form, including electronic data and oral presentations. Plagiarism occurs when the origin of the material used is not appropriately cited.

I/we agree and acknowledge that:

1. I/we have read and understood the Declaration and Statement of Authorship above.
2. I/we accept that use of my Swinburne account to electronically submit this assessment constitutes my agreement to the Declaration and Statement of Authorship.
3. If I/we do not agree to the Declaration and Statement of Authorship in this context, the assessment outcome may not be valid for assessment purposes and may not be included in my/our aggregate score for this unit.

Penalties for plagiarism range from a formal caution to expulsion from the university, and are detailed in the Student Academic Misconduct Regulations 2012.

Signatures:

8.2 Group Contribution Table

Appendix B
Group Contribution Table

The Group Assignment requires your team to complete the following table listing the group members who contributed and the agreed level of contribution by all group members. (If all group members contribute equally, it is assumed the level of contribution would be listed as 100%).

GROUP MEMBER NAME	LEVEL OF CONTRIBUTION	COMMENTS
Aiswarya Anil Mundangapuram Anilkumar	75%	Member fits stipulations for 75% level of contribution.
Dasuni Perera	100%	Member meets all conditions of 100% level of contribution.
Fatin Farzana Binti Azwari	100%	Member meets all conditions of 100% level of contribution.
Phuong Linh Tang	100%	Member meets all conditions of 100% level of contribution.

8.3 Suggested Ratio Calculation Table

Appendix C
Calculation Tables

8.3.1 Profitability Calculations

Analysis	Year	Calculation ($000)
Return on Equity (ROE) *Formula:* $\frac{Profit\ Available^{(1)}\ to\ Owners}{Average\ Equity}\ x\ 100$ *Note(s):* *(1) Profit after interest and tax*	2019	$\frac{409{,}002}{\left(\frac{3{,}197{,}793+2{,}937{,}932}{2}\right)}\ x\ 100 = 13.33\%$
	2020	$\frac{486{,}023}{\left(\frac{3{,}447{,}325+3{,}197{,}793}{2}\right)}\ x\ 100 = 14.63\%$
	2021	$\frac{846{,}845}{\left(\frac{3{,}893{,}019+3{,}447{,}325}{2}\right)}\ x\ 100 = 23.07\%$
Return on Asset (ROA) *Formula:* $\frac{Profit\ (Loss)^{(1)}}{Average\ Total\ Assets}\ x\ 100$ *Note(s):* *(1) Profit before tax + finance cost (interest)*	2019	$\frac{574{,}559+28{,}782}{\left(\frac{4{,}798{,}744+4{,}577{,}642}{2}\right)}\ x\ 100 = 12.87\%$
	2020	$\frac{661{,}288+59{,}794}{\left(\frac{5{,}828{,}602+4{,}798{,}744}{2}\right)}\ x\ 100 = 13.57\%$
	2021	$\frac{1{,}182{,}529+50{,}213}{\left(\frac{6{,}672{,}934+5{,}828{,}602}{2}\right)}\ x\ 100 = 19.72\%$
Gross Profit Margin *Formula:* $\frac{Gross\ Profit^{(1)}}{Sale\ Revenue}\ x\ 100$ *Note(s):* *(1) Profit before expenses deduction*	2019	$\frac{723{,}385}{2{,}234{,}118}\ x\ 100 = 32.38\%$
	2020	$\frac{739{,}642}{2{,}294{,}913}\ x\ 100 = 32.23\%$
	2021	$\frac{929{,}963}{2{,}768{,}328}\ x\ 100 = 33.59\%$

Net Profit Margin *Formula:* $\frac{Net\ Profit^{(1)}}{Sale\ Revenue}\ x\ 100$ *Note(s):* *(1) Profit before tax + finance cost (interest)*	2019	$\frac{574{,}559 + 28{,}782}{2{,}234{,}118}\ x\ 100 = 18.30\%$ =27.01%
	2020	$\frac{661{,}288 + 59{,}794}{2{,}294{,}913}\ x\ 100 = 21.18\%$ =31.42%
	2021	$\frac{1{,}182{,}529 + 50{,}213}{2{,}768{,}328}\ x\ 100 = 44.53\%$
Cash Flow to Sales *Formula:* $\frac{Cash\ flow\ from\ Operating\ Activities^{(1)}}{Sale\ Revenue}\ x\ 100$ *Note(s):* *(1) Profit before expenses deduction*	2019	$\frac{372{,}845}{2{,}234{,}118}\ x\ 100 = 16.69\%$
	2020	$\frac{1{,}056{,}964}{2{,}294{,}913}\ x\ 100 = 46.06\%$
	2021	$\frac{543{,}869}{2{,}768{,}328}\ x\ 100 = 19.65\%$
Asset Turnover *Formula:* $\frac{Sale\ Revenue}{Average\ Total\ Assets}\ x\ 100$ *Note(s):*	2019	$\frac{2{,}234{,}118}{\left(\frac{4{,}798{,}744 + 4{,}577{,}642}{2}\right)}\ x\ 100 = 47.65\%$
	2020	$\frac{2{,}294{,}913}{\left(\frac{5{,}828{,}602 + 4{,}798{,}744}{2}\right)}\ x\ 100 = 43.19\%$
	2021	$\frac{2{,}768{,}328}{\left(\frac{6{,}672{,}934 + 5{,}828{,}602}{2}\right)}\ x\ 100 = 44.29\%$

8.3.2 Liquidity Calculations

Analysis	Year	Calculation ($000)
Current Ratio *Formula*: $\frac{Current\ Assets}{Current\ Liabilities}$ *Note(s):*	2019	$\frac{1{,}456{,}340}{899{,}108} = 1.62\ times$
	2020	$\frac{129{,}833}{785{,}444} = 1.65\ times$
	2021	$\frac{172{,}657}{114{,}506} = 1.51\ times$
Quick Ratio/Acid Test Ratio *Formula*: $\frac{Current\ Assets - Inventory}{Current\ Liabilities}$ *Note(s):*	2019	$\frac{1{,}456{,}340 - 395{,}965}{899{,}108} = 1.18\ times$
	2020	$\frac{129{,}833 - 391{,}987}{785{,}444} = 1.15\ times$
	2021	$\frac{172{,}657 - 479{,}093}{114{,}506} = 1.06\ times$
Cash Flow Ratio *Formula*: $\frac{Net\ Cash\ Flow\ from\ Operating\ Activities}{Current\ Liabilities}$ *Note(s):*	2019	$\frac{372{,}845}{899{,}108} = 0.41\ times$
	2020	$\frac{105{,}696}{785{,}444} = 1.35\ times$
	2021	$\frac{543{,}869}{114{,}506} = 0.47\ times$

8.3.3 Asset Efficiency Calculations

Analysis	Year	Calculation ($000)
Inventory Turnover Period *Formula*: $\frac{Average\ Inventory}{Cost\ of\ Sold\ Goods}\ x\ 365$ *Note(s):*	2019	$\frac{\left(\frac{479{,}093 + 391{,}984}{2}\right)}{1838365}\ x\ 365 = 89.54\ days$
	2020	$\frac{\left(\frac{391{,}984 + 395{,}965}{2}\right)}{1555271}\ x\ 365 = 92.46\ days$
	2021	$\frac{\left(\frac{479{,}093 + 391{,}984}{2}\right)}{1838365}\ x\ 365 = 86.47\ days$
Days in debtors *Formula*: $\frac{Average\ Accounts\ Receivables}{Credit\ Sales}\ x\ 365$ *Note(s):* *The 2019 balances for trades receivable differs in FY19 and FY20 reports. In the FY19 report, its closing balance is recorded as 104,905, whereas in FY20, the opening balance is recorded as 107,619.	2019	$\frac{\left(\frac{104{,}905 * + 103{,}315}{2}\right)}{(0.4)(2234118)}\ x\ 365 = 42.52\ days$
	2020	$\frac{\left(\frac{107{,}114 + 107{,}619 *}{2}\right)}{(0.4)(2{,}294{,}913)}\ x\ 365 = 42.69\ days$
	2021	$\frac{\left(\frac{77{,}433 + 107{,}619}{2}\right)}{(0.4)(2{,}768{,}328)}\ x\ 365 = 30.50\ days$
Activity Cycle *Formula*: *Inventory Turnover Period + Days in Debtors* *Note(s):*	2019	89.54 days + 42.52 days = 132.06 days
	2020	92.46 days + 42.69 days = 135.15 days
	2021	86.47 day + 30.50 days = 116.97 days

8.3.4 Capital Structure (Solvency) Calculations

Analysis	Year	Calculation ($000)
Debt Ratio *Formula:* $\frac{Total\ Liabilities}{Total\ Assets} x\ 100$ *Note(s):*	2019	$\frac{1,600,951}{4,798,744} x\ 100 = 33.36\%$
	2020	$\frac{2,351,277}{5,828,602} x\ 100 = 40.34\%$
	2021	$\frac{2,779,915}{6,672,934} x\ 100 = 41.66\%$
Debt to Equity Ratio *Formula:* $\frac{Total\ Liabilities}{Total\ Equity} x\ 100$ *Note(s):*	2019	$\frac{1,600,951}{3,197,793} x\ 100 = 50.06\%$
	2020	$\frac{2,351,277}{3,477,325} x\ 100 = 67.62\%$
	2021	$\frac{2,779,915}{3,893,019} x\ 100 = 71.41\%$
Equity Ratio *Formula:* $\frac{Total\ Equity}{Total\ Assets} x\ 100$ *Note(s):*	2019	$\frac{3,197,793}{4,798,744} x\ 100 = 66.64\%$
	2020	$\frac{3,477,325}{5,828,602} x\ 100 = 59.66\%$
	2021	$\frac{3,893,019}{6,672,934} x\ 100 = 58.35\%$
Debt Coverage Ratio *Formula:* $\frac{Total\ Non\ Current\ Liability}{Net\ Operating\ Cost}$	2019	$\frac{701,843}{372,845} = 1.88\ times$
	2020	$\frac{1,565,833}{1,056,964} = 1.48\ times$
	2021	

Note(s):		$\frac{1,634,854}{543,869} = 3.01\ times$
Interest Coverage *Formula:* $\frac{EBIT^{(1)}}{Net\ Finance\ Cost^{(2)}}\ x\ 100$ *Note(s):* *(1) Taken from cover pages of respective financial reports* *(2) Taken from income statement*	2019	$\frac{603,340}{28,782} = 20.96\ times$
	2020	$\frac{721,080}{59,794} = 12.06\ times$
	2021	$\frac{1,233,000}{50,213} = 24.56\ times$

8.4 Accounts

Appendix D
Accounts references

8.4.1 Cash flows for operating activities

Cash Flows from Operating Activities	Note	June 2019 $000
Net receipts from franchisees		858,372
Receipts from customers		2,397,871
Payments to suppliers and employees		(2,681,840)
Distributions received from joint ventures		10,027
GST paid		(56,815)
Interest received		6,625
Interest and other costs of finance paid		(29,223)
Income taxes paid		(135,139)
Dividends received		2,967
Net Cash Flows From Operating Activities	28(b)	372,845

Operating Activities	Cash Flows from Operating Activities	Note	June 2021 $000	June 2020 $000
	Net receipts from franchisees		886,344	1,304,230
	Receipts from customers		2,984,441	2,461,539
	Payments to suppliers and employees		(2,984,050)	(2,471,564)
	Distributions received from joint ventures		9,332	8,385
	GST paid		(103,403)	(65,501)
	Interest received		5,496	8,142
	Interest and other costs of finance paid		(8,953)	(20,489)
	Interest paid on lease liabilities		(40,941)	(40,538)
	Income taxes paid		(206,595)	(128,967)
	Dividends received		2,198	1,727
	Net Cash Flows From Operating Activities	26(b)	543,869	1,056,964

8.4.2 Cash flows for investing activities

Cash Flows from Investing Activities	
Payments for purchases of property, plant and equipment and intangible assets	(94,222)
Payments for purchase of investment properties	(27,878)
Proceeds from sale of property, plant and equipment and properties held for resale	2,911
Payments for purchase of units in unit trusts and other investments	(1,320)
Payments for purchase of equity accounted investments	(434)
Proceeds from sale of equity investments	18,470
Proceeds from insurance claims	903
Cash obtained on consolidation of KEH Partnership	50
Proceeds from the completion of the Administrator Sale of the Coomboona JV assets	40,500
Loans granted to joint venture entities, joint venture partners and related and unrelated entities	(5,183)
Net Cash Flows Used In Investing Activities	(66,203)

Investing Activities	Cash Flows from Investing Activities		
	Payments for purchases of property, plant and equipment and intangible assets	(100,300)	(93,905)
	Payments for purchase and refurbishments of freehold investment properties	(173,822)	(51,474)
	Proceeds from sale of property, plant and equipment and properties held for resale	1,922	26,510
	Payments for purchase of units in unit trusts and other investments	(2,312)	(215)
	Payments for purchase of equity accounted investments	(409)	(2,215)
	Payments for purchase of listed securities	(2,360)	(5,000)
	Proceeds from sale of listed securities	78	-
	Proceeds from sale of a controlled entity	15,082	-
	Proceeds from insurance claims	2,689	2,628
	Loans repaid from / (granted to) joint venture entities, joint venture partners, related and unrelated entities	5,316	(13,292)
	Net Cash Flows Used In Investing Activities	(254,116)	(136,963)

8.4.3 Cash flow for financing activities

2019

Cash Flows from Financing Activities	
Proceeds from shares issued – executive share option plan	-
Proceeds from shares issued – renounceable pro-rata Entitlement Offer	163,869
(Repayments)/Proceeds from Syndicated Facility	(25,000)
Dividends paid	(342,122)
Loans repaid to related parties	(39,559)
Repayments of other borrowings	(3,477)
Net Cash Flows Used In Financing Activities	**(246,289)**

2021 & 2020

Financing Activities	Cash Flows from Financing Activities		
	Lease payments (principal component)	(130,849)	(124,770)
	Proceeds from shares issued – renounceable pro-rata Entitlement Offer	-	165,675
	Proceeds from / (Repayments of) Syndicated Facility	295,000	(520,000)
	Dividends paid	(473,483)	(322,505)
	Loans repaid to related parties	-	(8)
	Repayments of other borrowings	(26,140)	(9,763)
	Net Cash Flows Used In Financing Activities	**(335,472)**	**(811,371)**

2019

Net Increase in Cash and Cash Equivalents		60,353
Cash and Cash Equivalents at Beginning of the Year		125,463
Cash and Cash Equivalents at End of the Year	28(a)	**185,816**

2021 & 2020

Net (Decrease) / Increase in Cash and Cash Equivalents		(45,719)	108,630
Cash and Cash Equivalents at Beginning of the Year		294,446	185,816
Cash and Cash Equivalents at End of the Year	26(a)	**248,727**	**294,446**

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