Reading list:

* [ARB ibisworld](https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/company-reports/3445/company-details)
* [Australian accessories manufacturing industry](https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/industry/c2319/about)
* [Australian wholesaling](https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/industry/f3504/about) (ARB is not involved but this industry affects local demand for ARB products)
* [BAP ibisworld](https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/company-reports/425115/company-details)
* [ARB yahoo finance](https://au.finance.yahoo.com/quote/ARB.AX?p=ARB.AX&.tsrc=fin-srch)
* [BAP yahoo finance](https://au.finance.yahoo.com/quote/BAP.AX?p=BAP.AX&.tsrc=fin-srch)
* [BAP book (top stocks 2020)](https://books.google.com.au/books?id=Bgm5DwAAQBAJ&pg=PT83&dq=bapcor+limited&lr=&source=gbs_toc_r&cad=3#v=onepage&q=bapcor%20limited&f=false) or [BAP book (top stocks 2020)](https://books.google.com.au/books?hl=en&lr=&id=bbmzDwAAQBAJ&oi=fnd&pg=PR7&dq=bapcor+limited&ots=zHNorE1Y-j&sig=0LFjTZiCAvPVm9Z1w3_S_0-3rqg#v=onepage&q=bapcor%20limited&f=false)

Business Strategy

* **How well does the paper describe the company’s products, services, and strategy?**

ARB corporation limited is an Australian owned public company that designs, manufactures and sells automotive accessories ranging from general products that targets all cars to specific car accessory products for the four-wheel drive vehicles such as SUVs. Examples of general products that are suitable for any car would be recovery equipment, UHF radios, GPS and reverse cameras, interior accessories such as seat covers and sun shades and lastly fuel and water tanks. Specific car accessory products for the four-wheel drive vehicles consist of bull bars, side rails and side steps, rear protection towing and wheel carriers, canopies, ute lids and tub accessories, roof racks, cross bars and carriers, suspension, driving lights, tyre accessories, under vehicle protection and safari snorkels .ARB also sells camping equipment such as tents, swags and awnings, portable fridge freezers, camp chairs and tables, etc. ARB operaties in multiple places including Australia, Thailand, New Zealand, the United States, the Czech Republic and the United Arab Emirates. ARB currently manufactures their products in two locations, Australia and Thailand, with the remaining locations used as warehouse facilities.

“We also devote considerable time and resources toward sourcing new products from around the world. IPF lights from Japan, Warn winches from the United States… we scan the globe in search of equipment that meets both the demands of our customers and our own stringent quality requirements.” ([link](https://www.arb.com.au/about/))

* So ARB manufactures and outsources the products that they distribute. They distribute to retailers, and most of them are independent economic entities to ARB (ARB doesn’t own them) but use the company’s name.

According to 2021 annual report, ARB’s business strategy is as follows:

> The short term business strategies and operational guidance cannot be provided with any degree of confidence due to market conditions. However, ABS received strong global sales, a strong customer order book and increasing sales in Australia preceding the publication of this annual report.

> The board of ARB has a clear long term business strategy with the intent of prolonged growth for the company. The business strategy is centered around the following focus points:

1. Implementation of new products. This aims to alleviate the risk in having an influx of new entrants in the market and. New products attract both new and old customers.

“Product development is a key element in maintaining ARB’s long-term competitive advantage.” - 2021 report

Examples:

“The company invests heavily in research and design divisions, and regularly updates its product ranges to support new 4WD models. For example, ARB showed its design focus with the strategy for the JL series Jeep Wrangler. ARB took the unusual step of airfreighting the car from the United States to Australia shortly after its launch. This step enabled ARB to design proprietary accessories for the new Wrangler before competitors had access to the car and had time to develop their own products. The company invests heavily in product safety, performing costly crash tests on their large range of bull bar products.” - copied from IBISworld

* JL series Jeep Wrangler was launched 2017.
* This helped the company gain a competitive advantage over competitors in the accessory manufacturing industry as they are the first ones to manufacture accessories in this particular niche market. They obtain temporary economic rents.

“Significant engineering resources were used in developing comprehensive ranges of ARB and Old Man Emu accessories for the updated Toyota Hilux, the new Izuzu D-Max, the new Mazda BT-50 and the new Nissan Navara.” - annual report

“Engineering and development are underway on a full suite of premium, aftermarket products for the new Ford Bronco in the USA, announced to the market on 31 March 2021.”

1. Increased manufacturing capacity: This element of the ARB business strategy aims to create economies of scale to decrease the fixed manufacturing cost per unit; giving the company a competitive advantage. For example ARB invested in a Thailand 36,000 sqm increased facility.

“The company has used Australia's free trade agreement with Thailand to expand its warehousing and manufacturing operations in Thailand. As a result, an increasing proportion of products for export markets are manufactured in Thailand.” - IBIS

“Construction has started on a new 30,000 square metre factory in very close proximity to the existing Thai operations on a site acquired during the financial year. The new factory will increase capacity and facilitate more efficient and streamlined operations in Thailand.” - annual report

1. Improved distribution and growth in export markets:

From IBISWorld:

“ARB's niche market strategy has enabled the company to avoid the overall industry's struggles over the past five years.”

* “This success is partly due to a lack of significant competitors with market power in the 4WD accessories market.”
* During the resources boom, the company has benefited from increased demand for vehicles (and hence vehicle accessories) in the mining sector. “A slowdown in the resources sector has shifted the company's focus slightly to export markets to maintain its growth.”
* It has realised the need to expand operations to the global market before other competitors.
* ARB’s “growth represents an outperformance of the overall industry over the period, and has boosted ARB's market share. ARB has benefited from not relying on local motor vehicle manufacturers through an export-based strategy, with stronger global demand for high-quality automotive parts bolstering company profit margins over the past five years.”
* In essence, it appeals to the global market, whose demand for accessories has been stronger than the local market

1. Securing strong supply chains: particularly with issues such as coronavirus and the global supply chains.

“ARB's export success can be attributed to its partnerships with local distributors in a range of countries, especially those with similar off-road conditions, such as Saudi Arabia.” - IBIS

* **Evaluates the effectiveness of the company’s strategy**

Over the past few years, its strategy has been effective, as indicated by its outperformance compared to other Australian companies in the same industry. Its strategy has allowed it to get a competitive advantage through heavy R&D investment, reduce average production costs via economies of scale of expansion, and benefit from stronger global demand compared to local demand.

Financial Statement Analysis

* **Does the paper discuss profitability through a discussion of the common size and horizontal income statements, as well as appropriate ratios (e.g. ROA, ROE, P/E, P/B)? Does the narrative explain how the ratios have changed over the previous years and does the narrative identify reasons for these ratio changes?**

However, the growth rate throughout this time is seen to fluctuate, with years 2018-2020 seeing the revenue and profit growth fluctuate below 12% and the single digits, but 2021 seeing a sudden increase of many times the growth of previous years. This pattern is reflected in the return on assets, return on capital and return on equity, where the decline of these ratios from 2017-2020 suggests a declining efficiency to produce income from their assets and capital, but the spike in 2021 would indicate a turnaround, and the dramatic increase in assets would seem to be instrumental in this. However, the magnitude of these ratios compared to those of BAP show ARB’s superior ability (of almost double) in producing income from its assets, capital and equity. According to the horizontal analysis of income statements, it can also be seen that, whereas BAP’s revenues and profit growth have reduced from 2018 and risen back to a similar level in 2021, ARB’s growth has jumped considerably higher than before in 2021. Analysts and investors would appear to have recognised ARB’s growth opportunities during 2021 with a large increase in the price earnings (PE) ratio, which highlights the increase in growth rate of profit and number of shares. Hence its price to book ratio (PB) has been consistently more than double that of its competitor BAP.

* Horizontal analysis of ARB
  + Sales Revenue: Sales revenue has grown over the last 4 years, so the business is expanding and is become more popular. A potential reason for this could be due to the increase in the amount of units sold, decrease in cost of good per unit or lastly a increase in price of a unit. In particular there was a high increase in sales revenue from 2020 to 2021 and a moderate increase from 2017 to 2018.
  + Other revenue: Other revenue does not show a clear trend as it increased from 2017 to 2019 but suddenly decreased from 2019 to 2020 and then increased drastically from 2020 to 2021.
  + Total Revenue: Total revenue has grown over the last 4 years from 2017 to 2021 mainlyy due to the increase in sales revenue and small influence from other revenue.This is becauset other revenue takes up a small amount in total revenue, increases and decreases in other revenue make only small impacts to the changes in total revenue from each subsequent year.
  + Gross profit: Gross profit has grown over the last 4 years, this is expected as there is a clear increase in total revenue over the last 4 years. There is a correlation between total revenue and gross profit highlighted in the change in gross profit from years 2017 to 2018 and 2020 to 2021. In these particular years there has been a major increase in total revenue even despite the increase in materials and consumables used. This indicates that ARB are becoming more efficient between each subsequent year at generating profit from the production of their goods and services.
  + EBIT: EBIT has been increasing over the last 4 years which indicates an increase in profitability. In particular from 2020 to 2021, there has been a drastic increase in EBIT. A potential reason for this would be the drastic increase in sales revenue in 2020 to 2021. Another reason could be the large increase in depreciation and amortization expense from 2019 to 2020 which indicates an investment in a fixed asset, potentially causing an increase in sales revenue.
  + Pretax income (Profit before income tax expense): The pretax income from years 2017 to 2021 indicate a increasing trend but at a decreasing rate. However, from 2020 to 2021 there is a large increasing in pretax income. Most likely due to the increase in sales revenue and other revenue whilst the increase of expenses to a minimum. Thus, indicating that the company is becoming more profitable.
  + “Growth in profit after tax of 97.0% exceeded sales revenue growth of 33.9% primarily due to higher gross profits, increased volume-driven factory overhead recoveries and strengthening of the Australian dollar against the Thai baht.” - 2021 annual report
* Why was there increasing gross profits?
* So it was cheaper to invest in Thailand than before
* High volume demand resulted in greater overhead (operating) expenses but the company was able to recover these expenses through its operations
* The dramatic increase in 2021 could be attributed to the increase in demand for travel after COVID. Thus, this resulted in greater sales. Also, since ARB invested in Thailand this resulted in a decrease manufacturing cost per unit which in turn lead to a lower increase of expenses in 2021. The exchange rate of the stronger Australian dollar to the Thai baht also resulted in decreased costs.
* “the OEM increase was attributed to new contracts with customers such as Ford which are expected to continue through 2021” ([link](https://premium.goauto.com.au/arb-boosts-profit-by-113/))
* “unprecedented demand especially for Australian cars, given the death of local manufacturing”, “Supercharged by the lack of travel options, many consumers are turning to vehicles as recreational holidays and weekend getaway machines.”, “those who deal in used cars – or the periphery of car accessories – have benefited enormously throughout the pandemic”, “pleasing recovery… from the worst of the COVID-19 impacts encountered during the final quarter of the previous financial year” ([link](https://www.9news.com.au/motoring/australia-classic-car-market-booms-as-investors-flock-to-muscle-cars/0f8f4d5e-c9c0-403f-aa97-635e85371caa))
* “The Company's financial results rebounded strongly in the current financial year from the worst of the COVID-19 impacts experienced at the onset of the pandemic. The ongoing disruption caused by COVID-19 across all of ARB’s markets has presented both opportunities and operational challenges. Whilst demand for the Company’s products has increased worldwide with a trend towards local touring, logistical and supply chain constraints have increased operational costs and disrupted fulfilment of sales demand. It is not feasible to quantify the impact of these and other COVID-19 related factors” - financial report
* Horizontal analysis for BAP
  + Operating revenue: The operating revenue has grown over the last 4 years with each year being higher than the previous. This suggests that the company is growing and becoming more popular. There is increasing demand for the products. From 2017 to 2018 there was a large increase in operating revenue, however from 2018 to 2019 there was a small increase. From 2019 to 2021 the operating revenue was increasing at a increasing rate.
  + Other income: Other income started being generated in 2019 and has been on a decreasing trend from 2019 to 2021.
  + Total revenue: There is a clear increasing trend of total revenue over the last 4 years. This is due to the increase in operating revenue that has been generated. This suggests that the company is becoming more profitable in terms of pure sales every year. There is however, a notable smaller increase in total revenue from years 2018 to 2019 compared to the other years.
  + Gross Proft: Gross profit follows the same trend as total revenue with each year being higher than the previous. This also supports the claim that BAP is becoming more profitable with each year.
* Common Size Analysis of ARB
  + Materials and consumables used (Cost of revenue): Materials and consumables used as a percentage of total revenue has had a slight increase from 44.13% in 2019 to 46.28% 2020 and then a slight decrease to 44.56% in 2021. But other than that it has been quite constant over the last 4 years. This indicates that there has not been a major change in the cost of each unit sold. A potential reason for the increase in materials and consumables used from 2019 to 2020 would be due to changes in product sold.
  + Employee expenses: Since expenses is a fairly fixed cost then it is expected that employee expenses should be decreasing from each subsequent year to the next as total revenue is increasing each year. This is however not the case as it is increasing instead from 2017 to 2020 which indicates that there could be the hiring of new employees. The decrease in employee expenses would be contributed to the large increase in total revenue from 2020 to 2021 and also the potential stopping of recruiting employees.
  + Advertising expenses: Similarly, there should be a decrease in advertising expense as total revenue increases from each subsequent year. This is conveyed from 2017 to 2018 and 2019 to 2021. However, from 2018 to 2019 there was an increase in advertise expense which would in turn reveal that the company invested more in advertisement in 2019.
  + Distribution expense: Distribution expenses has been increasing from 2017 to 2019 and 2020 to 2021 which could be due to the increase in sales In 2019 there was a decrease in distribution expense as a percentage of total revenue which could be due to customers picking up products instead of delivery.
  + Occupancy expense: Occupancy expense as a percentage of total revenue decreases from years 2018 to 2021 which is expected as it is a fixed cost and thus an increase in total revenue would result in its decrease. However, in 2018 there is a increase in occupancy expense compared to its previous year, this indicate that there could be a potential expansion of the company. Company rented another location which would cause for a increase in rent.
  + Maintenace expense: Similarly, since maintenance expense is a fixed cost it should decrease over time due to the increasing total revenue. This is shown from years 2019 to 2021. However, in 2017 to 2018 there was no maintenance expense which could be due to the company occupying no machines and that they only invested in machinery in 2019. Another reason could be that there were no problems with the machinery that they had and thus did not require maintenance.
  + Other expenses: Other expenses as a percentage of total revenue has indicated a decreasing from years 2018 to 2019 and 2020 to 2021 which is expected. However, in 2017 to 2018 and 2019 to 2020 there is an increase in other expenses.
  + Operating expense: The operating expense as a percentage of total revenue clearly shows a decreasing trend which is due to the increase in total revenue whilst operating expense being fairly fixed.
* ROA
  + The return on assets of ARB in the past 4 years are very strong which indicate a high profitability for the company. This also reveals that the company management in general is very efficient at earning profit from their assets. However, there is a clear decreasing trend from years 2018 to 2020 which could be potentially due to the company over-investing in assets that subsequently did not yield any growth in revenue. This is shown in the low increase rate of EBIT compared to the increasing rate of total assets. Despite this in 2021 there was a drastic increase in return on assets which could be indicative of the company making a good investment which could be a result of change in management. This is supported by the extremely high rate of increase in EBIT when compared to the increase in total assets.
  + Through their strategy of specialising in developing and manufacturing niche products and the lack of competition in the respective markets, ARB was able to achieve high operating profit margins. When paired with a higher than industry average asset turnover, this results in a high asset turnover compared to the industry.
    - When paired with the low debt capital structure of ARB (resulting in a low debt burden), as well as how most of ARB’s liabilities are non-interest earning, this gives ARB a compound leverage ratio greater than 1. This means that the ROE is greater than the after tax ROA. The resulting ROE is still much higher than the industry average.
* ROE
  + The return on equity of ARB in the past 4 years display a decreasing trend from years 2017 to 2020 and then a drastic increase from 2020 to 2021. The general cause of the decrease from each subsequent year from 2017 to 2020 would be that the rate of increase of net income in that period is not as high as the rate of increase of total equity. When investigating deeper through the Du Pont Technique there is a clear indication of a decrease in operating profit margin and asset turnover within this period. The decrease in these two components are one of the main influences that resulted in the decrease in ROE. The decrease in operating profit margin can be traced to the sales revenue increasing at a rate higher than EBIT. This suggests that there is a inefficient handling of expenses as the proportion of increase from expenses does not equate to the proportion of increase from sales. The reason for this would be the ARB’s implementation of new products which would result in an increase in production cost and expenses. The decrease in asset turnover would be due to the inproportional increase of total assets and sales, where total assets increases at a higher rate compared to sales. This signifies that there is an inefficient use of assets in generating sales, which could be a result of over-investing in assets. The return on equity in 2021 however has increased dramatically from 2020. This is due to a larger increase in net income compared to total equity. Using the Du Pont technique the reason for ROE’s large increase is due to the increase in all components of ROE consisting of operating profit margin, asset turnover, tax burden, debt burden and leverage ratio. However, the components that have increased the most is operating profit margin and leverage ratio. The reason for the increase in operating profit margin is due to the rate of increase of EBIT being higher than sales revenue. This suggests that there is an inproportional increase of sales revenue to expenses where expenses has increased at a lower rate. Since, an increase in sales revenue results in an increase in expenses as more units would be made to supply the increase in sales, they should be proportionate. However, this is not the case which signifies that manufacturing cost and expenses have decreased as they become more efficient, potentially a result of investing in a manufacturing facility in Thailand. Another contributing factor would be the exchange rate from the stronger Australian dollar to the Thai baht has increased from 2020. Hence, manufacturing costs in Thailand would be reduced. The increase in leverage ratio can be attributed to the increase in total assets at a higher rate then equity. This signifies that there has been an increase in the amount of assets being financed by debt.
* P/E
  + Price to earnings ratio of ARB from 2017 to 2018 has increased due to an higher rate of increase in average share price of the company than earnings per share. This signifies that in 2018 many investors wanted to buy shares of ARB than to sell them which resulted in the increase in share price. However, from 2018 to 2021 there is a clear decreasing trend in price to earnings ratio. The reason for this can be traced to the increasing trend of earnings per share and also a slight influence of decreasing average share price. The reason for the increasing trend of earnings per share would be due to net income increasing at a higher rate than the increase of shares within this period. Net income is increasing at a such a high rate due to the increasing amounts of sales revenue gained whilst keeping the increasing of expenses at a minimal.
* P/B
  + The market to book value ratio of ARB from 2018 to 2021 is all above 1 which indicates that the company is very successful in creating value for the shareholders. Hence, giving shareholders a high profitiabiltiy. There is a decreasing trend in market to book value ratio from 2018 to 2020 and then a drastic increase in 2021. The decreasing trend is attributed to both the increasing average book value per share and the decrease in average price per share. The increasing average book value per share is due to the increasing trend in total equity. This is influenced by the increase in total assets over the last 4 years which is increasing at a higher rate compared to total liabilities.
* **Does the paper discuss operating efficiency using appropriate ratios? Does the narrative explain how the ratios have changed over the previous years and does the narrative identify reasons for these ratio changes?**
* **Does the paper discuss solvency and liquidity risk by referring to appropriate ratios (e.g. current ratio, quick ratio, working capital, times interest earned, debt ratio) and the common size balance sheet? Does the narrative explain how the metrics have changed over the previous year and does the narrative identify reasons for these trend changes?**

The solvency and liquidity trends can be viewed within common size balance sheet. Firstly, we have seen no major change in the proportion of current liabilities and current assets on the balance sheet. Current assets are also of always greater proportion than the current liabilities. For this reason, the strong liquidity of the company and the ability to pay short term debts have remained relatively constant over the past few years. In terms of solvency, the proportion of total outstanding debt on the balance sheet has increased, the proportion of equity has decreased, and the proportion of assets has fluctuated slightly. From this, we can extrapolate that the solvency of the company has somewhat weakened. To gain greater insight into the liquidity and solvency of the company, we can look at financial ratios.

The horizontal analyses of the balance sheet can also provide information on liquidity and solvency by assessing asset and liability growth. In the case of ARB, current liabilities did grow for all years except that reported in 2019. The company’s ability to pay short term debt was affected by this growth as currents assets also grew in a significant manner. Furthermore, total liabilities grew significantly except for 2019. Equity and total assets also experienced growth; though notably not as significant and thus affecting the solvency of the company. To gain greater insight into the liquidity and solvency of the company, we can look at financial ratios.

* Current Ratio
  + The current ratio for ARB over the past four years signals financial strength and the company’s ability to meet short-term obligations. The current ratio has been above 3 for all the financial years except 2018 where the company just fell short at 2.93. From 2017 to 2018 there was a decrease in this liquidity ratio as a consequence of an increase in current liabilities. This changed the following year with an increase as the current liabilities fell and the current assets increased. This change was due to a decrease in payables and a greater accumulation of inventory. From 2019 to 2020 the current ratio fell again mainly because of a growth in provisions and from 2020 to 2021 the ratio remained constant. Ultimately, ARB experienced an increase in current assets in all years from 2017, meaning the fluctuations in the current ratio were generated by changes in the main ratio driver, current liabilities. Even with all the slight changes in liquidity, it is evident that over the past few years ARB has easily supported its short term debt obligations. In saying this, the ARB does have a statistically high current ratio which may indicate that the company is not utilising its short term financing facilities.
* Quick Ratio

- The quick ratio indicates a company's ability to overcome its short term liabilities with its most liquid assets. In other words, if the company is able to immediately use its near-cash assets. In the case of ARB, the company has had a strong quick ratio since 2017, with the values mostly sitting around 1.4 and have been exclusively greater than 1. This means that ARB has $1.4 of liquid assets to cover every $1 of its current liabilities. Similar to the current ratio, the most significant ratio driver has been the general increasing trend of current liabilities from 2017-2021. In saying this, ARB has increased its liquid assets to consistently show a strong ability to pay off short term debts.

* Debt to Capital Ratio (debt ratio)
  + The Debt to capital ratio indicates the relationship between debt and equity financing. Ultimately it is a measure of risk as financing through greater debt carries inherent risk. ARB has experienced an increase in their debt to capital ratio since 2017, with the only caveat being a decrease in the year 2019. This growth trend is a result of ARB’s debt growing disproportionately to the equity of the company. As of 2021, the ratio was 26.2%, indicating that 26.2% of the company’s operations are funded using debt. In consideration of the industry ARB is in it can be said that this solvency ratio shows a financially healthy company.
* Debt to Equity Ratio
  + As a solvency ratio, the debt to equity ratio indicates how a company is funded. The ratio examines how much debt can be covered by equity in the circumstances of liquidation. From 2017, ARB has seen a general increase in the debt to equity ratio. For example, in 2017 the ratio was sitting at 19% in relation to 35% in 2021. This is because while the total equity has over the years, the debt outstanding has increased by a greater factor, particularly that of lease liabilities and provisions. Despite the increase in debt to equity ratio, it can be said that the solvency risk of ARB remains strong as the relative value of the ratio is low.

ARB reports that they reduce “concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers” (2021 report).

Industry Analysis

* **Does the paper identify the two or three major companies in the industry and explain generally the level of competition in the industry?**
* <https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/industry/c2319/competitive-landscape>
* <https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/industry/f3504/competitive-landscape>
* <https://my-ibisworld-com.simsrad.net.ocs.mq.edu.au/au/en/industry/g3921/major-companies#major-players>

ARB is the only major company in the Australian parts and accessories manufacturing industry, with a market share of 12.1%. The 2021 total industry size was $2,458m. Most companies in this industry specialise in niche products, which hence prevents much market dominance.

ARB is also part of the larger Australian parts wholesale industry, although it has a much smaller market share, estimated at 2.0 to 3.0%. The 2021 industry size is $8,672m. “The industry's low concentration can be attributed to the range of wholesalers” so similar to above. There’s too many things to cover so companies need to specialise here.

| Wholesale industry company | Market share |
| --- | --- |
| GPC Asia Pacific Holdings Pty Ltd | 7.0% |
| Toyota Motor Corporation Australia Limited | 4-5% |
| ARB Corporation Limited | 2-3% |
| Robert Bosch (Australia) Proprietary Limited | 1-2% |

ARB is also part of the retail industry. In the 2021 financial report, it only owns 29 of the 70 ARB branded retail stores. This means that it delegates much of the retail work to other economic entities. Not really worth talking about this industry.

| Retail industry Company | Market share |
| --- | --- |
| Super Retail Group Limited | 20.8% |
| GPC Asia Pacific Holdings Pty Ltd | 10.1% |
| Bapcor Limited | 5.4% |

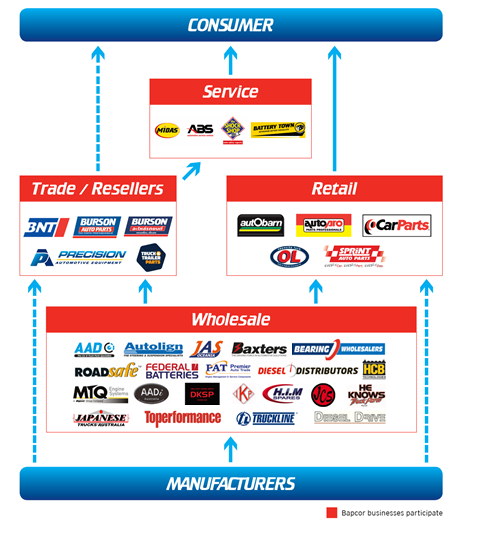
\*I think\* that their manufacturing plants sell their products to distribution centres (both in Aus and overseas), which in the process generates revenue that is attributed to the manufacturing industry, and these distribution centres wholesale stock to retail stores (in Aus it is ARB branded stores), generating revenue for the wholesale industry, and the store then do the final sale to consumers, hence finishing the supply chain.

* **Does the paper describe how the company and its paired competitor differentiate themselves from each other? Does the paper compare the operating and strategic differences between the two companies by providing examples of how the companies are similar and different?**

These two companies don’t look like very close competitors to me. ARB manufactures and distributes their products to global warehouses, and these warehouses wholesale these products to retailers, and then finally consumers. ARB is mainly involved in manufacturing and distributing in the supply chain.

BAP on the other hand only deals with distribution, wholesaling, and retailing of the products that they hand pick. They don’t participate in product manufacturing. They choose to stock products that meet consumer demand and sell them.

* Trade refers to purchasing stock from wholesalers and selling them at smaller quantities to other businesses.
* Retail refers to selling stock to consumers.
* Wholesale refers to purchasing products directly from manufacturers and selling them to traders.
* Service



I think that ARB has the option to produce products that meet the requirements of overseas consumers, but BAP is limited to having to find products that meet the demand of consumers in the countries or areas of where they operate.

Although not the closest competitors, they still largely target the same group of consumers in the same geographical area (Aus-asia). They compete for such demand using vastly different marketing strategies.

* **Does the paper analytically compare the profitability of the two companies through the evaluation of the common size income statement, the horizontal income statement and at least four profitability ratios? Does the narrative reach a conclusion as to which company is currently achieving stronger profitability performance and identify specific reasons for the superior profitability performance?**

ROA:

ARB has had a notably greater ROA than BAP since 2017. For example, the mean ROA for ARB has been 19.92% compared with a significantly lower 9.34% for its competitor. Although the EBIT for BAP has been statistically greater over the past few years, their value for total assets is much greater. This shows that ARB is more efficient in producing profits and thus has the advantage of a stronger profitability performance overall. It can be noted that the industry average ROA is 4.43%, giving both companies a competitive advantage in the market.

ROE:

The ROE of both ARB and BAP has been very similar over the past few years. The mean for both companies sit at roughly 18%, with that of ARB being slightly higher. According to IBISWorld, the industry average for ROE is 9.84%, thus both companies can be considered to be profitable using this metric.

PE Ratio:

Historically, BAP has had a much lower PE ratio than the competing firm ARB. BAP has had a mean ratio of 2608.39% while RBAs has been 5552.90%. The PE ratio evaluates what the market is willing to pay based on the earnings of a company, thus showing that the expected profitability of RBA is greater than BAP.

PB ratio:

The PB ratio has historically been much larger for ARB than BAP. For instance, the mean PB ratio for ARB has been 967.8% while for BAP it has been 278.3% since 2017. This large disparity in the price to book value of the two companies could mean that ARB is more profitable as investors are paying a premium to the book value because

* **Does the paper analytically compare the operating efficiency of the two companies through the evaluation of at least three efficiency ratios? Does the narrative reach a conclusion as to which company is currently achieving better operating efficiency and identify specific reasons for the superior efficiency?**
* Receivable turnover
  + The receivable turnover of ARB over the past 4 years have been all slightly lower than BAP, this indicates that BAP is the more efficient company at collecting receivables from their clients.
* Asset turnover
  + The asset turnover over the last 4 years of ARB have all been greater than the asset turnover of BAP. This indicates that ARB has better utilization and management of their assets in order to generate revenue than BAP.
* Inventory turnover
  + The inventory turnover over the last 4 years of ARB have all been lower than BAP which are both in the automotive accessory industry. This indicates that ARB are not selling their goods as fast as BAP. ARB holds less amount of inventory compared to BAP as their sales revenue is not as high. However, this could be potentially due to BAP being a retail company whereas ARB is more of a wholesaler.

Overall, BAP is currently achieiving better operating efficiency then ARB as it is more efficient in their management of account receivables and inventory when compared to ARB. Whereas, ARB is more efficient in their utilization and management of assets in generating revenue. Reasons for BAP’s

* **Does the paper compare the solvency and liquidity risk of the two companies through the evaluation of the common size balance sheet, the horizontal balance sheet and at least four risk ratios? Does the narrative reach a conclusion as to which company is currently achieving stronger financial health from a balance sheet perspective and identify specific reasons for the superior financial health?**

The common size balance sheet for both ARB and BAP display comparative trends of liquidity and solvency. Firstly, CAs make up a larger proportion of the balance sheet than CLs for ARB; meaning they have greater liquidity. This is true for all years and means that ARB has a better ability to pay short term obligations. Furthermore, equity makes up a much larger proportion of the balance sheet to total liabilities for ARB than BAP; meaning that the latter company holds greater risk for investors.

The liquidity of both companies has remained relatively stable for both companies; the horizontal balance sheet depicts this fact as the fluctuations in both ARB and BAP for CAs and CLs are somewhat positively correlated. In the case of solvency prospects, total equity for BAP is growing at a faster rate than total liabilities, meaning that the company is decreasing in their risk. The opposite is true for ARB.

Over the past few years, ARB has had a financially superior current ratio to that of BAP. BAP has experienced a strong current ratio of around 2 since 2017; meaning they have had the ability to overcome their short-term obligations. Despite this ARB has historically sustained a higher ratio of above 3 and thus has greater liquidity. In saying this, the superior current ratio may mean that ARB is not making use of its CAs efficiently; according to IBISWorld, the industry average for the current ratio is 1.67. Ultimately, both companies have the capacity to settle their short term-debts, although BAP may be more efficient in employing their CAs.

The quick ratio for BAP has been less than 1 for all years except 2017; meaning the company does not have the resources to instantly repay their CLs and rely heavily on their inventory to repay debts. Again, this ratio depicts the fact that ARB is more liquid than BAP as their quick ratio was consistently above the value of 1. Overall, the liquidity ratios of the two companies show that ARB is financially healthier and therefore carries less risk than BAP.

The debt to capital ratio of BAP shows a greater risk of insolvency than ARB. The ratio for BAP was greater for all years, meaning that the company is funded by a greater proportion of debt to equity than its competitor. From this, it can be said that ARB is currently enjoying greater financial health with a better solvency outlook.

The debt-to-equity ratio further illustrates BAP as a company the holds greater risk than ARB. This ratio was significantly larger for BAP in all years since 2017, meaning the company is financing their growth through debt at a greater percentage than ARB. In saying this, the ratio has seen a diminishing trend for BAP and the converse is true for its competitor. Ultimately, although the solvency for ARB is better, both companies have a relatively healthy financial outlook.

Stock Price Performance

* **Does the paper describe the company’s stock performance over the most recent year? Does the paper consider events that may have led to the company’s highest and lowest stock prices during the year? Does the paper offer an opinion on the future direction of the stock?**
* 

Outlook Opinion and Conclusion

* **Does the paper provide an outlook opinion on the company? Is the opinion supported by evidence from the earlier sections of the research report?**