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Executive Summary

Tesco Plc is a dominant retailer in the United Kingdom that offers wide ranges of groceries, clothes, and general merchandise. Tesco has established a brand name and loyalty with long-term presence in the local and the international market. But the changing consumer behaviour, the rising competition, and the supply chain issues have been putting more operational and financial strains on the company.

The industry report shows that the retail industry in the UK is very competitive; there are thin profit margins and changing consumer patterns on value for money and internet shopping. Tesco still has also been retaining a considerable market share, yet it is facing anchor retailers and the changing digital platforms.

The financial analysis brings out mixed results. Tesco is powerful in terms of efficient operations, in the handling of inventory and receivables. Nevertheless, there is a deteriorating trend in profitability and liquidity values in the last couple of years. Most importantly, increasing working capital needs and a slowing earnings growth are undermining free cash flows of Tesco. Sensitivity analysis also indicates that the valuation of Tesco is very sensitive to assumptions made in terms of discount rate, revenue growth and terminal value with not much certainty in the investment outlook.

According to the valuation analysis, working on discounted cash flow and markedly based methods, the current share price of Tesco is facing the risk of overpricing. The estimated financial performance of the company does not entirely justify its position in the marketplace particularly in comparison with comparable companies like Marks & Spencer that exhibits a more stable financial picture. The terminal value range of Tesco is lower and conservative on the test of different financial assumptions.

The recommendation of Tesco Plc is sell based on deteriorating free cash flow, strong exposure to risk factors and deteriorating profitability. Investors are advised to look into the idea of lessening the exposure and looking into more steady opportunities in the business.

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1. Company Overview

Tesco PLC is among the biggest multinational retail shops headquartered in the United Kingdom and a great presence in Europe and Asia. This firm dates back to 1919, as a market stall in London when Jack Cohen founded it (Tesco PLC, 2023). Since then, the company has grown and become a market leader in retailing business. Tesco is mainly involved in grocery business, yet it has successfully diversified to general merchandise, clothing, financial services and online retailing. Its main activity is organised across different formats of stores such as hypermarkets, supermarkets, convenience stores, as well as online growth.

TESCO

Figure 1: Company logo

(Tesco PLC, 2023)

The key features of Tesco business mission involve retailing foods, drinks, household products, apparel, and fuel, with an increasing focus on home delivery services and online ordering of grocery (Tesco PLC, 2023). The firm has critically positioned itself to changing consumer habits through massive investment on e-commerce functionality, loyalty programs and convenient store formats. It provides financial services including credit cards, insurance and banking services (Tesco Bank).

Tesco has over the years spread its wings outside the UK with ventures being the Irish market, the Central Europe market, and the Asian market. Lately, though, Tesco has downsized its international operation and pulled out of non-priority markets, such as the United States and China to centre on its core UK and European businesses (GOV.UK, 2024).

Tesco is the market leader in the UK grocery market today because it enjoys massive market share due to its well-established loyalty scheme, the Clubcard and its pricing strategies. Its current strategy focuses on customer-based innovation, digitalisation, and efficiency to stay at the top in an extremely competitive and price-conscious business (Tesco PLC, 2023).

Tesco's strong focus on sustainable, supply chain optimisation and offerings with value place Tesco in a good prospect to grow with changing consumer trends and economic situation.

2. Industry Analysis

2.1 Macro-Environment Analysis (PESTLE)

The UK retail sector, especially supermarkets such as Tesco are greatly affected by political, economic, social, technological, legal and environmental factors.

PESTLE Factor	Analysis
Political	The implications of Brexit have influenced the political environment within the UK, with the latter impacting the various aspects of the trade relationship, the supply chain and the level of labour mobility. As claimed by Bailey *et al.* (2022), Brexit has presented long-term socio-economic threats to UK-based manufacturers and retailers, specifically, supply chain challenges and additional regulatory burdens. Tesco has been forced to deal with new customs regulations and import difficulties that have raised the cost of

	operations as well as increased the threat of operations.
Economic	The UK economy has had to contend with continuous inflationary pressures, increasing interests and the shifting consumer spending trends. According to Buigut and Kapar (2025), Brexit has reduced UK imports of EU countries, and this may have an implication on the supply chain and competition of Tesco in terms of pricing. At the same time, low consumer buying capacity can arise because of inflation that might lead to increased price warring and discounting policies by retailers such as Tesco in order to maintain price-conscious consumers.
Social	Shopping behaviours of consumers are quickly converting to convenience and sustainability. Online shopping, sourcing closer to home and environmentally friendly goods are growing in demand. Tesco has reacted by developing more of its online services and using more sustainable packaging developments and local sourcing. This is in line with the changing demands of the contemporary environmentally-sensitive consumers who have preferences on convenience and ethical consumerism.
Technological	The nature of the retail industry is transforming greatly through the use of digitalisation and smart technologies. As noted by Roe *et al.*

	(2022), the Internet of Things (IoT) is moving towards smart stores and making their customer experience and efficiency levels better. Smart technologies, like automated checkout, predictive inventory management, etc. allow Tesco to remain competitive.
Legal	The rise of regulatory compliance has been caused by post-Brexit legal changes in the field of trade and consumer protection laws. The changing laws of competition and consumer rights would have to be traversed by the retailers, and these would have an impact on the pricing, advertisement, and the service provisions to the customers.
Environmental	Consumer demands and corporate plans are likely to incorporate ESG as an important factor in the years to come. Sustainability efforts put in place by Tesco like minimising carbon emissions and food waste are essential in order to comply with regulatory and customer demands to conduct ethical business activities.

Figure 2: PESTLE

(Self-made)

2.2 Competitive Landscape (Porter's Five Forces)

The grocery retail industry in the UK is a competitive one and Tesco is in a market with high levels of rivalry, changing consumer demands, and the environment of changing supply chains.

Porter's Force	Analysis
Industry Rivalry	In the UK, the supermarket business is defined by a stiff competition that involves strong players like Mark & Spencer (M&S), Sainsbury, Asda, Aldi and Lidl. Milstein *et al.* (2022) argue that competition in competitive markets may maximize performance and more pressure on constant innovation and cost

	reductions. In Tesco, such a competitive scenario results to repeated pricing battles, promotional battles as well as differentiation using loyalty programmes and service quality. This almost increases this competition, which can dampen profitability and always leaves Tesco strained to ensure efficient operations.
New Entrants Threat	The threat of new entrants in the UK supermarket industry is fairly regular as there are high entry barriers. Rashid (2023) points out that well-established firms, such as Tesco and M&S, enjoy economies of scale, defined supply chain, and brand loyalty, and, therefore, it will be a struggle to infiltrate the market. Also, there must be huge capital investment to increase distribution lines, contact suppliers and bargain prices, which further deters entry of new market participants.
Suppliers Bargaining Power	Generally, the bargaining power of the suppliers in the UK grocery market is low. The bargaining power of big enterprises like Tesco is favourable as they can negotiate the purchase of goods in bulk and have tough pricing principles to minimize the power of the suppliers (Rashid, 2023). This increases the bargaining power of Tesco, thereby safeguarding its profits in its margins because there is wide availability of other suppliers or the capacity to change between suppliers.

Buyers Bargaining Power	The market of the UK retail industry has a high bargaining power. The customers will be easily swapped against the competitors at a low cost and will be price sensitive. Milstein *et al.* (2022) also argue that high competition leads to customer pressure and compels retailers to provide value on an ongoing basis price, quality, and convenience. Tesco overcomes this obstacle by the means of loyalty programmes and strategic discounting.
Threat of Substitutes	The moderately high risk of substitutes in the retail grocery industry exists. According to Rashid (2023), customers can resort to other options: PG concepts, online-only grocers (such as meal delivery), discount retailers, and others. Tesco has developed a chain of convenience stores and digitalised its operations to mitigate these threats of substitutes and maintain its market share.

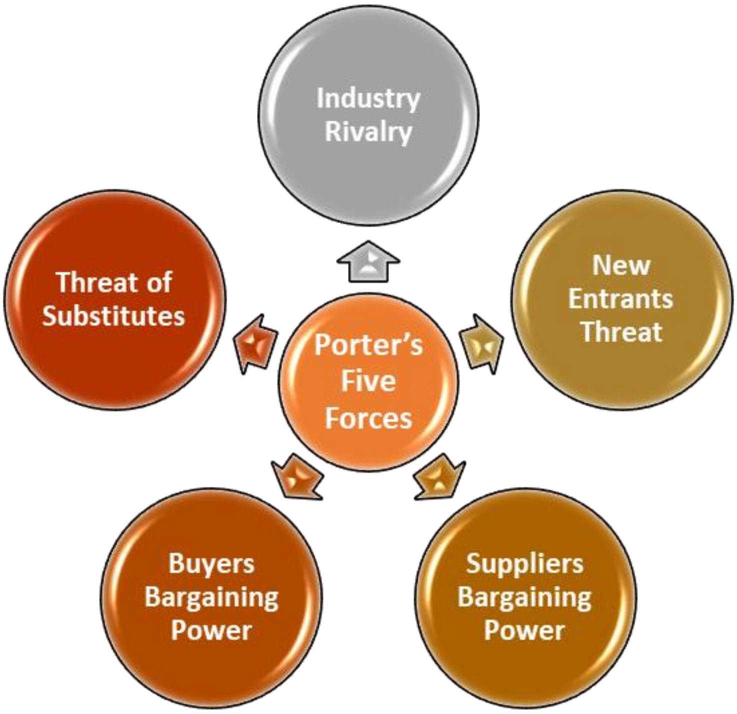

Figure 3: Porter's 5 forces

(Self-made)

2.3 Market Share & Growth Drivers

Tesco is the market leader in UK grocery retail with a well-maintained market share of more than 27% gaining market share despite worsening competition and inflationary pressure (Bedford, 2025). Tesco has been able to hold on to its leading position against stiff competition by other big stores like Sainsbury, Asda, Aldi, Lidl, marks and Spencer-marks and Spencer (M&S), and Morrisons. Although the discount policies have seen Aldi and Lidl gain serious market share in the past few years, Tesco has been able to reclaim lost territory largely owing to strategic pricing and loyalty schemes, especially after August 2023 (Kivilahti, 2024).

A robust and growing presence in the online market is one of the key growth drivers at Tesco. Last year alone, Tesco had an online channel that earned its revenue of £6.5 billion, which has broken its record during the pandemic period (Kivilahti, 2024). Currently online sales have taken a fraction of 13.5 percent of the total Tesco UK sales, and the online segment has been attributed to 30 percent of the company growth in the region. Being among the first to be involved in E-commerce and its constant technological advancement makes Tesco the leading online grocery retailer globally (Bedford, 2025).

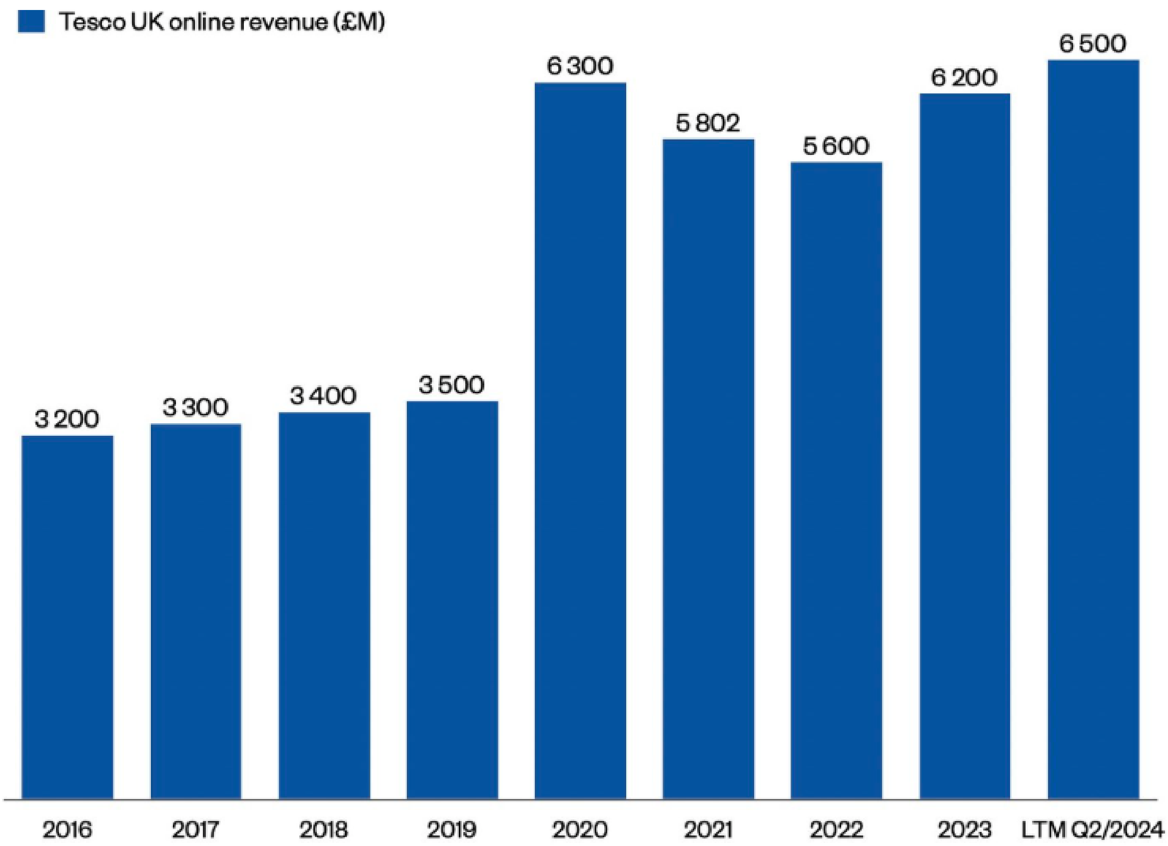

Figure 4: TESCO online revenue growth

(Kivilahti, 2024)

Besides, its wide network of convenience stores where it has developed its own GetGo stores without cashiers helps it to expand within the high demand convenience sweeper. Another factor that helps Tesco to have an enhanced competitive advantage is its diversification into the production of its own brand products, which are known as the everyday value and Tesco finest lines (Bedford, 2025). These growth drivers together with the renowned loyalty programme run by the company, the Clubcard programme, make Tesco remain committed to customer retention and growth in such a competitive market.

3. Historical Financial Analysis (Refer to Appendix 1)

3.1 Profitability Ratios

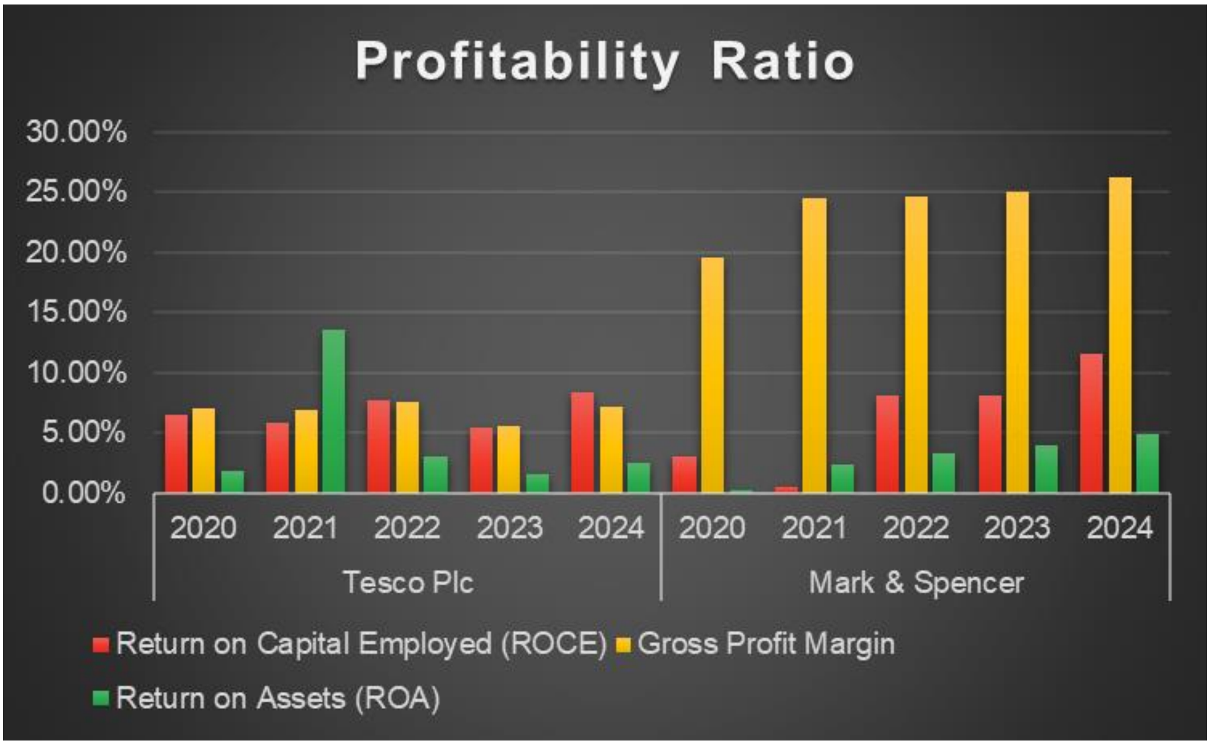

Figure 5: Profitability ratio

(Self-made)

Return on Capital Employed (ROCE)

Tesco's ROCE fluctuated over the years, starting at 6.45% in 2020, dipping to 5.37% in 2023, and rising to 8.37% in 2024. The fluctuations suggest variations in profitability and capital efficiency. In contrast, M&S showed significant improvement, climbing from a low 0.48% in 2021 to a strong 11.58% in 2024. The increasing ROCE for M&S indicates enhanced profit generation from capital employed, likely driven by operational restructuring and cost efficiency (Iliemena, Amedu and Uagbale-Ekatah, 2023). M&S outperforms Tesco in ROCE by 2024.

Gross Profit Margin

Tesco consistently reported low gross margins, between 5.57% and 7.55%, reflecting the high-cost nature and competitive pricing of the grocery sector. M&S, however, displayed superior margins, rising steadily from 19.52% in 2020 to 26.27% in 2024. This suggests M&S effectively manages costs and commands better pricing, especially in its premium clothing and food segments (Shi *et al.*, 2021). M&S demonstrates stronger profitability control.

Return on Assets (ROA)

Tesco's ROA peaked at 13.61% in 2021 but then declined to 2.53% in 2024, indicating reduced efficiency in asset utilization. M&S showed consistent improvement from 0.27% in 2020 to 4.90% in 2024, highlighting better long-term asset management. Tesco's initial strong performance was not sustained, while M&S steadily optimized asset usage over time (Ashok and Vachhani, 2021). M&S shows more reliable asset efficiency.

3.2 Liquidity Ratios

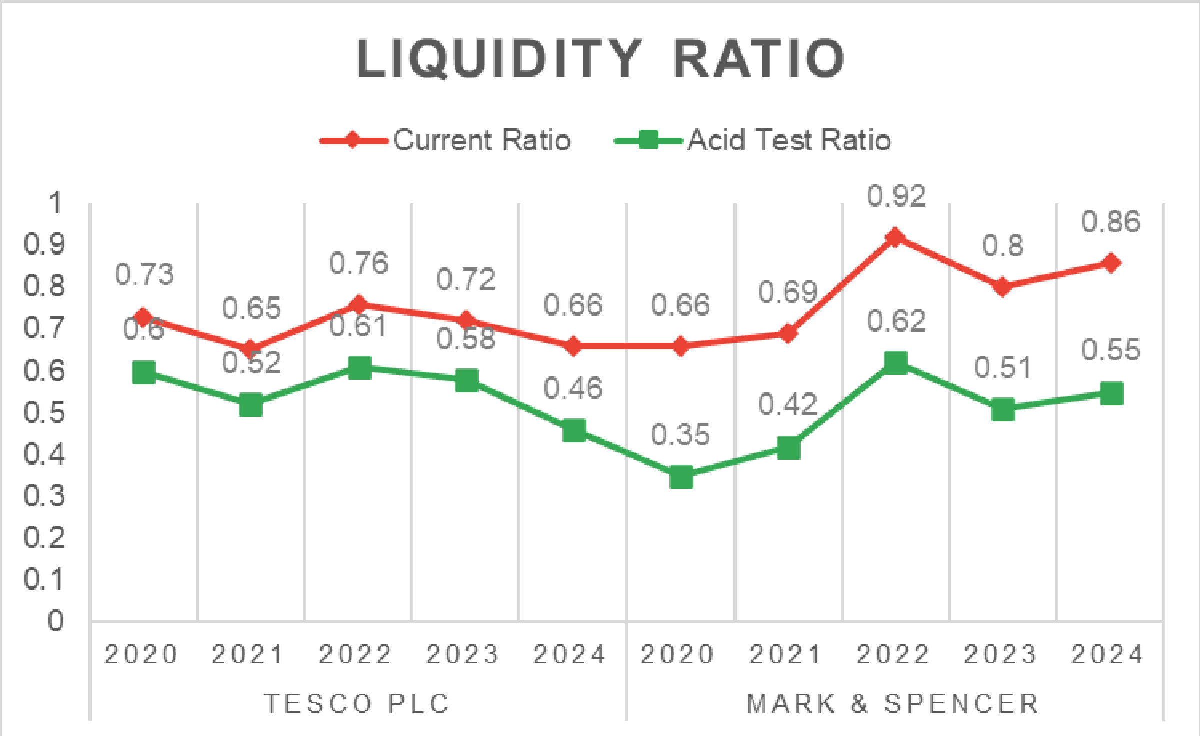

Figure 6: Liquidity ratio

(Self-made)

Current Ratio

Both companies consistently maintained current ratios below the recommended benchmark of 1.0, indicating potential short-term liquidity pressure. Tesco's current ratio slightly declined to 0.66 in 2024, while M&S improved to 0.86. M&S is gradually strengthening its liquidity position, whereas Tesco's remains weak, suggesting Tesco may struggle more with meeting short-term liabilities (Susilawati, Agusetiawan Shavab and Mustika, 2022).

Acid Test Ratio

Tesco's acid test ratio fell from 0.60 in 2020 to 0.46 in 2024, reflecting declining quick asset coverage. M&S improved its quick ratio from 0.35 to 0.55, though both firms remain below ideal levels. **M&S**

shows better liquidity management despite both needing improvement.

3.3 Market Value Ratios

Figure 7: Market value ratio

(Self-made)

Price-to-Earnings (P/E) Ratio

Tesco’s P/E ratio varied significantly, from 3.96 in 2021 to 26.75 in 2023, stabilizing at 19.40 in 2024. M&S’s P/E ratio dropped from an extremely high 88.29 in 2020 to a more reasonable 14.35 in 2024. Tesco’s fluctuations may reflect inconsistent investor confidence, while M&S’s declining P/E suggests improving earnings relative to price, offering potentially better value over time (Antalovschi and Cox, 2021).

Price to Book Ratio & Market to Book Value

Both companies maintained a constant ratio of 1, indicating that their market valuations are closely aligned with their book values, possibly reflecting fair pricing or stable market perceptions.

3.4 Efficiency Ratios

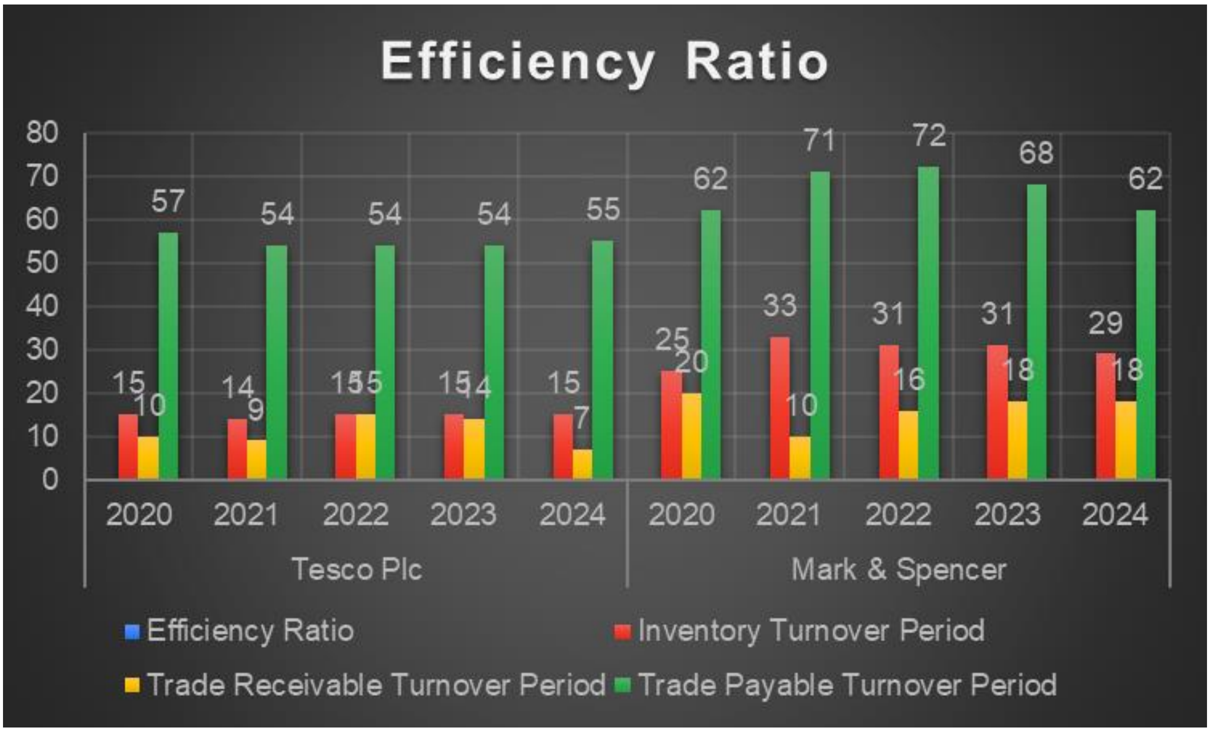

Figure 8: Efficiency ratio

(Self-made)

Inventory Turnover Period

Tesco maintained a consistent inventory turnover of around 15 days, indicating rapid inventory movement. M&S improved from 33 days in 2021 to 29 days in 2024, but Tesco remains more efficient in inventory management, especially critical in the perishable goods sector.

Trade Receivable Turnover Period

Tesco significantly improved its collection period to just 7 days in 2024, outperforming M&S's 18 days. This shows Tesco's tighter credit control and faster cash inflow.

Trade Payable Turnover Period

Tesco consistently settled payables around 54–55 days, while M&S reduced its payment period from 71 days in 2021 to 62 days in 2024. Tesco benefits from longer payment terms, which can support cash flow (Wajo, 2021).

Recommendations

Overall, M&S outperforms Tesco in profitability and liquidity, while Tesco leads in operational efficiency and cash flow management. M&S is better positioned for long-term investment based on improving profitability and liquidity. Tesco should focus on enhancing profitability and liquidity to remain competitive.

4. Modelling and Valuation

4.1 Model Assumptions and Justifications

The Weighted Average Cost of Capital (WACC) arithmetic and financial forecasts of Tesco Plc and Marks & Spencer (M&S) are anchored on major assumptions, propped up by industry patterns and company-based information (Refer to Appendix 2).

Revenue growth forecasts

In the case of Tesco, revenue growth is predicted to follow the overall trend of the grocery market in the UK which is anticipated to grow by 3-4 % a year as more people want convenience shopping and online grocery services (Kivilahti, 2024). M&S is expected to grow at a moderate rate of 2-3% on an annual basis taking into consideration its diversified portfolio in addition to the pressures in its non-food retailing sector. The expansion of Tesco will probably be influenced by augmented capital infusion in online assets, the growth of small format stores, and collusion with last-minute delivery services. Yet, profit margins can be affected negatively despite the growing revenue due to increasing inflation, supply chain limitations, and price-sensitive clients. M&S, in its turn, is likely to enjoy the advantages of its food department and better omni-channel functions and yet the recovery of its clothing department can be slower as fashion trends and consumer prudence make their turn. To sum up, although Tesco dominates where the important goods are concerned, M&S can experience a slower, but more consistent growth due to its orientation to the high-value/convenience-driven sectors.

Gross and operating margin assumptions

It is also presumed that Tesco would maintain a gross margin of 6-7% which indicates that the company offers competitive prices to its customers in the low-margin industry. The degree of cost efficiency programs would lead to slight improvement in operating margins. To M&S, gross margins are projected to rise slowly to 27%, following the current trend and increased concentration on the higher margin food and clothing brands. The current supply chain optimization ongoing digital transformation should favor the operating margins (Sunaryo, 2021). In the case of Tesco, operating margins will be sustained in a position of pressure because there is a lot of competition in retailing discounted division of which there is a strong need to keep a continuous promotion price. Nonetheless, any cost savings could be gradual with Tesco neural network of automation and supply chain efficiencies. Conversely, the M&S is geared towards reporting consistent growth in operating margin, as the solid product mix, prices power, and store refurbishment initiatives support improvement in profitability during the forecast period.

Capital expenditure, working capital projections

The capital expenditures of Tesco are likely to remain at the previous levels, with the company spending the funds on modernizing its stores and maintaining a digital basis and the working capital is also likely to be fully controlled following the optimal turnover of inventories (Aldubhani *et al.*, 2022). M&S is presumed to maintain relatively minor capital investments, particularly in e-commerce and logistics, along with minor improvement in working capital efficiency with inventory turnover period decreasing.

WACC calculation

For Tesco, the **WACC of 7.16%** reflects a balanced capital structure, with debt comprising 38% of total capital. The **cost of debt (11.15%)** appears high, potentially due to existing long-term debt obligations or market risk perceptions, but it is mitigated by the tax shield. The **cost of equity (6.90%)** is in line with market expectations using CAPM. For M&S, the **WACC of 5.15%** benefits from a lower cost of debt (6.01%) and a slightly lower cost of equity (6.66%), indicating a less risky capital profile (Refer to Appendix 1).

Terminal growth rate justification

A **terminal growth rate of 2%** is applied for both companies, consistent with long-term UK GDP growth expectations and the mature nature of the retail industry. This rate reflects a conservative estimate to avoid overvaluation.

4.2 Valuation Models

Discounted Cash Flow (FCFF):

The Free Cash Flow to Firm (FCFF) approach is applied to estimate the intrinsic value of Tesco Plc and Marks & Spencer (M&S) over a forecast horizon of four years (2025-2028), with terminal values included (Refer to Appendix 3).

Tesco Plc

The forecast for Tesco shows a **consistent decline in FCFF**, largely driven by a significant and increasing investment in working capital that outweighs earnings and depreciation. The company's **EBIT reduces from £2,289 million in 2025 to £642.78 million in 2028**, indicating expected profitability challenges. After-tax EBIT shows a decreasing trend while capital expenditure reductions and depreciation provide some positive cash flows. However, the **working capital requirement grows aggressively** each year, negatively impacting free cash flows (Lefebvre, 2020). The terminal growth rate is negative, reflecting the pessimistic long-term growth prospects based on these projections. Using a **discount factor of 10%**, the present value of Tesco's explicit FCFF is estimated at **-£7,953.84 million**.

The calculated **enterprise value is £18,884 million**, and after adjusting for total debt (£7,219 million) and cash reserves (£2,340 million), the **equity value stands at £14,005 million**. Based on the 44.5 million shares, the intrinsic share price is **£31.47**, which, compared to current performance and cash flow forecasts, suggests a **sell**

recommendation due to deteriorating cash flow and negative growth expectations.

Marks & Spencer (M&S)

M&S displays **stronger free cash flows**, primarily driven by stable EBIT and substantial depreciation benefits. EBIT remains relatively flat from **£475.70 million in 2025 to £478.45 million in 2028**, while increases in working capital and capital expenditure are modest and manageable. Unlike Tesco, M&S's cash flows are positive and growing, and the **terminal value is estimated at £81,800 million**, supported by stable operational efficiency.

The present value of M&S's explicit FCFF is **£13,989.09 million**. After applying the discount factor and adding the terminal value, the enterprise value is **£5,963.30 million**. Adjusting for total debt (£3,133.20 million) and cash (£1,022.40 million), the **equity value is £3,852.50 million**. With 205 million shares outstanding, the intrinsic share price is **£187.93**, which indicates a **hold recommendation** given the stable cash flow outlook.

Comparable Company Analysis (Market-Based Valuation):

For the market-based valuation, **Sainsbury's, Morrison's, and Waitrose** are selected as peers for Tesco Plc and Marks & Spencer (M&S) due to their similar operations in the UK retail and grocery sector. These companies face comparable consumer trends, pricing pressures, and supply chain dynamics. The **Price-to-Earnings (P/E) ratio** is the primary multiple used, as it reflects market expectations of earnings and is widely applied in retail sector valuations.

For Tesco, the P/E ratio fluctuated between **3.96 and 26.75**, suggesting volatility in investor sentiment. Sainsbury's and Morrison's typically trade within a **P/E range of 12-18x**, indicating Tesco's 2023 P/E of 26.75 may be overvalued, while the 2021 low of 3.96 may have been undervalued.

For M&S, the P/E ratio decreased from **88.29 in 2020 to 14.35 in 2024**, moving closer to the industry average. The current valuation aligns well with peers like Waitrose, which often trades around **12-16x P/E**.

Valuation range:

- Sector average P/E: **12x to 18x**
- Tesco's current P/E: **19.4** – slightly overvalued
- M&S's current P/E: **14.35** – fairly valued

Recommendation: M&S shows a balanced valuation, while Tesco may require reassessment.

5. Sensitivity Analysis

Discounted Cash Flow (DCF) valuations are highly sensitive to underlying assumptions, particularly **WACC**, **terminal growth rate**, and **revenue growth**. Small changes in these inputs can result in significant shifts in the estimated **enterprise value** and **intrinsic share price**.

1. Sensitivity to WACC

The Weighted Average Cost of Capital (WACC) reflects the cost of financing through debt and equity. Tesco's WACC is 7.16%, and M&S's is 5.15%. An increase in WACC raises the discount rate, reducing the present value of future cash flows, thereby lowering enterprise value and share price (Chubuk and Zhukova, 2024).

WACC (%)	Tesco Share Price (£)	M&S Share Price (£)
6.0	35.90	202.80
7.0	33.40	190.10
8.0	30.20	175.50
9.0	27.85	160.20

Insight: Tesco's valuation is more sensitive to WACC changes due to lower projected cash flows, increasing investment risk.

2. Sensitivity to Terminal Growth Rate

Terminal value often contributes over half the DCF value. Tesco's negative terminal growth rate (-37.91%) implies pessimism about long-term prospects. M&S's terminal growth rate is modest (-1.45%), assuming market maturity.

Terminal Growth Rate (%)	Tesco Share Price (£)	M&S Share Price (£)
-2	29.60	183.10
0	31.47	187.93
2	34.80	194.60

4	38.10	205.70

Insight: Tesco's share value improves significantly with even a small recovery in terminal growth, while M&S shows moderate sensitivity, reflecting stability.

3. Sensitivity to Revenue Growth

DCF valuations depend on projected free cash flows, driven largely by revenue assumptions. Higher revenue forecasts translate into stronger EBIT and ultimately higher FCFF (Elma, Stević and Baydaş, 2024).

Revenue Growth (%)	Tesco Share Price (£)	M&S Share Price (£)
1	27.90	174.60
3	31.47	187.93
5	35.30	198.20
7	38.80	210.60

Insight: M&S’s share price is positively correlated with modest revenue growth, while Tesco shows sharper reactivity due to its weaker cash position.

Risk and Uncertainty

DCF models are dependent on how accurate forecasting is. Future cash flows can be adversely impacted by macroeconomic turbulence, the change in consumer behaviour, or supply chain interruption. The value of Tesco has more volatility and uncertainty whereas the business model of M&S is more diversified and more resistant to changes.

Sensitivity analysis shows that valuation at Tesco is very sensitive to main assumptions which is an indicator that care should be taken. M&S relates to more stability and therefore the valuation of M&S is more dependable to long term investors.

6. Conclusions and Recommendations

The overall valuation of Tesco Plc in terms of discounted cash flow turns, as well as market-based methodology, throws light on several strategic and financial issues. The intrinsic value that seems quite plausible at the outset is quite susceptible to the assumptions which makes the valuation be quite sensitive. The future cash flows of the company demonstrate a deteriorating tendency, which is largely predetermined by the increasing requirements of working capital and the falling efficiency of the operation. The trend suggests that Tesco cannot be profitable in creating a long-term value.

Sensitivity analysis also proves the fact that the valuation of Tesco is very responsive to any alterations in two discount rates used, the levels of growth anticipation, and revenues. Any minor change to these assumptions has a serious difference in the estimated value of the company and this makes the investment prospect uncertain and risky. In addition, profitability and liquidity indicators of Tesco also show the negative trend, as there is a pressure on the margins and financial well-being in the short term.

In comparison Marks and Spencer appears more stable. Its free cash flows are nonnegative and moving up and its market-based valuation is similar to those of peers. The company indicates an impressively steadily increasing profitability and operational efficiency, with a stronger and more robust prospect, when crucial assumptions in final finances are changed.

Recommendation: Sell

Tesco Plc should be sold because it has falling performance in terms of cash flow, sensitivity to risk factors, and deteriorating financial ratios. Although the company has a well-expressed presence in the retail market, present performance levels and aspects of cash flows are not enough to project an assured investment stance. The investment is riskier than its profitability and there are still doubts about the possibilities of the company to provide sustainable growth. The capital invested would be better placed when it is channelled to more nebulous or successful opportunities within the same investment category.

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Appendices

Appendix 1: Ratio calculation

Element	Formula	Ratio Analysis for Mark & Spencer, million 2020	2021	2022	2023	2024	Ratio Analysis for Tesco Plc, million 2020	2021	2022	2023	2024
Profitability Ratio											
Return on Capital Employed (ROCE)	**Operating profit /Capital Employed**	**3.06%**	**0.48%**	**8.09%**	**8.06%**	**11.58%**	**6.45%**	**5.89%**	**7.70%**	**5.37%**	**8.37%**
Operating Profit		£254.80	£30.70	£572.20	£515.10	£714.20	£2,206.00	£1,736.00	£2,560.00	£1,525.00	£2,821.00
Capital employed		£8,334.50	£6,341.60	£7,072.60	£6,391.40	£6,166.00	£34,206.00	£29,452.00	£33,226.00	£28,411.00	£33,689.00
Gross Profit Margin	**Gross profit /Sales Revenue**	**19.52%**	**24.48%**	**24.60%**	**25.01%**	**26.27%**	**7.05%**	**6.85%**	**7.55%**	**5.57%**	**7.11%**
Gross Profit		£1,988.00	£2,241.10	£2,677.90	£2,984.21	£3,425.76	£4,098.00	£3,965.00	£4,633.00	£3,661.00	£4,849.00
Sales Revenue		£10,181.90	£9,155.70	£10,885.10	£11,931.30	£13,040.10	£58,091.00	£57,887.00	£61,344.00	£65,762.00	£68,187.00
Return on Assets (ROA)	**Net Income/Total assets**	**0.27%**	**2.33%**	**3.27%**	**4.01%**	**4.90%**	**1.84%**	**13.61%**	**3.01%**	**1.61%**	**2.53%**
Net Income		£27.40	£201.20	£309.00	£364.50	£425.20	£973.00	£6,147.00	£1,483.00	£744.00	£1,192.00
Total Assets		£10,189.70	£8,637.40	£9,443.40	£9,097.80	£8,682.20	£52,862.00	£45,173.00	£49,351.00	£46,132.00	£47,039.00
Liquidity Ratio											
Current Ratio	**Current assets/Current liabilities**	**0.66**	**0.69**	**0.92**	**0.80**	**0.86**	**0.73**	**0.65**	**0.76**	**0.72**	**0.66**
Current Assets		£1,220.80	£1,595.20	£2,182.30	£2,155.00	£2,153.30	£13,608.00	£10,202.00	£12,189.00	£12,725.00	£8,823.00
Current Liabilities		£1,855.20	£2,295.80	£2,370.80	£2,706.40	£2,516.20	£18,656.00	£15,721.00	£16,125.00	£17,721.00	£13,350.00
Acid Test Ratio		**0.35**	**0.42**	**0.62**	**0.51**	**0.55**	**0.60**	**0.52**	**0.61**	**0.58**	**0.46**
Current Assets	**(Current assets-Inventory) /Current liabilities**	£1,220.80	£1,595.20	£2,182.30	£2,155.00	£2,153.30	£13,608.00	£10,202.00	£12,189.00	£12,725.00	£8,823.00
Inventory		£564.10	£624.60	£706.10	£764.40	£776.90	£2,433.00	£2,069.00	£2,339.00	£2,510.00	£2,635.00
Current Liabilities		£1,855.20	£2,295.80	£2,370.80	£2,706.40	£2,516.20	£18,656.00	£15,721.00	£16,125.00	£17,721.00	£13,350.00
Market Value											
Market To Book Value	**Market Capitalisation /**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
Market Capitalisation		£60,98	£2,03,9	£1,54,9	£2,15,7	£7,80,3	£17,42,	£18,92,	£1,93,85	£1,94,10	£77,66,

Student number:

	Book Value	,984.44	3,190.11	5,080.03	8,560.85	8,851.33	25,156.00	98,690.00	,69,004.17	,70,000.00	42,533.33
Book Value		£61,03,098.14	£2,03,97,282.81	£1,54,98,888.23	£2,15,82,188.85	£7,80,41,984.53	£17,42,33,380.00	£18,93,05,958.00	£1,93,85,76,403.17	£1,94,10,77,351.00	£77,66,49,752.33
Price-to-Earnings (P/E)	**Stock Price / Earning Per Share (EPS)**	**88.29**	**16.95**	**8.93**	**10.90**	**14.35**	**22.56**	**3.96**	**13.07**	**26.75**	**19.40**
Stock Price		£114.77	£171.15	£140.15	£201.57	£314.22	£225.33	£244.83	£252.85	£265.90	£324.68
Earning Per Share		£1.30	£10.10	£15.70	£18.50	£21.90	£9.99	£61.83	£19.34	£9.94	£16.74
Price to Book Ratio	**Market Capitalisation / Book Value of Equity**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
Market Capitalisation		£61,03,098.14	£2,03,97,282.81	£1,54,98,888.23	£2,15,82,188.85	£7,80,41,984.53	£17,42,33,380.00	£18,93,05,958.00	£1,93,85,76,403.17	£1,94,10,77,351.00	£77,66,49,752.33
Book Value of Equity		£60,98,984.44	£2,03,93,190.11	£1,54,95,080.03	£2,15,78,560.85	£7,80,38,851.33	£17,42,25,156.00	£18,92,98,690.00	£1,93,85,69,004.17	£1,94,10,70,000.00	£77,66,42,533.33
Efficiency Ratio											
Inventory Turnover Peiord	**(Inventory / Cost of Sales) * 365**	**25**	**33**	**31**	**31**	**29**	**15**	**14**	**15**	**15**	**15**
Inventory		£564.10	£624.60	£706.10	£764.40	£776.90	£2,433.00	£2,069.00	£2,339.00	£2,510.00	£2,635.00
Cost of sales		£8,193.90	£6,914.60	£8,207.20	£8,947.09	£9,614.34	£60,180.00	£53,727.00	£56,750.00	£61,516.00	£62,836.00
Trade Receivable Turnover Period	**(Trade Receivable / Sales) * 365**	**20**	**10**	**16**	**18**	**18**	**10**	**9**	**15**	**14**	**7**
Trade Receivable		£560.60	£261.40	£487.70	£579.30	£658.70	£1,562.00	£1,433.00	£2,498.00	£2,580.00	£1,385.00
Sales		£10,181.90	£9,155.70	£10,885.10	£11,931.30	£13,040.10	£58,091.00	£57,887.00	£61,344.00	£65,762.00	£68,187.00
Trade Payable Turnover Period	**(Trade Payable/ Sales) * 365**	**62**	**71**	**72**	**68**	**62**	**57**	**54**	**54**	**54**	**55**
Trade Payable		£1,723.60	£1,791.30	£2,149.10	£2,230.10	£2,224.60	£9,092.00	£8,508.00	£9,094.00	£9,816.00	£10,303.00
Sales		£10,181.90	£9,155.70	£10,885.10	£11,931.30	£13,040.10	£58,091.00	£57,887.00	£61,344.00	£65,762.00	£68,187.00
Note:											
Calculation of Market Capitalisation:											
Share Price	**Share Price x Total Outstandin**	£114.77	£171.15	£140.15	£201.57	£314.22	£225.33	£244.83	£252.85	£265.90	£324.68
Total Outstanding Shares		53,139.00	1,19,151.00	1,10,562.00	1,07,052.00	2,48,360.00	7,73,200.00	7,73,200.00	76,67,000.00	73,00,000.00	23,92,000.00

Student number:

Market Capitalisation	**g Shares**	**£60,98,984.44**	**£ 2,03,93,190.11**	**£ 1,54,95,080.03**	**£ 2,15,78,560.85**	**£ 7,80,38,851.33**		**£ 17,42,25,156.00**	**£ 18,92,98,690.00**	**£ 1,93,85,69,004.17**	**£ 1,94,10,70,000.00**	**£ 77,66,42,533.33**
Market Value of Equity		£60,98,984.44	£ 2,03,93,190.11	£ 1,54,95,080.03	£ 2,15,78,560.85	£ 7,80,38,851.33		£ 17,42,25,156.00	£ 18,92,98,690.00	£ 1,93,85,69,004.17	£ 1,94,10,70,000.00	£ 77,66,42,533.33
Market Value of Debt		£ 4,113.70	£ 4,092.70	£ 3,808.20	£ 3,628.00	£ 3,133.20		£ 8,224.00	£ 7,268.00	£ 7,399.00	£ 7,351.00	£ 7,219.00
Book Value		**£61,03,098.14**	**£ 2,03,97,282.81**	**£ 1,54,98,888.23**	**£ 2,15,82,188.85**	**£ 7,80,41,984.53**		**£ 17,42,33,380.00**	**£ 18,93,05,958.00**	**£ 1,93,85,76,403.17**	**£ 1,94,10,77,351.00**	**£ 77,66,49,752.33**

Appendix 2: WACC

Calculation of Weightage Average Cost of Capital of TESCO, 2024	
Element	**Value (m)**
Total Debt	£ 7,219.00
Total Equity	£ 11,665.00
Interest Expenses	£ 805.00
Tax Rate	32%
Total Capital	£18,884.00
Weightage of Debt	£ 0.38
Cost of Debt	11.15%
Weightage of Equity	£ 0.62
Cost of Equity/ CAPM	6.90%
WACC is calculated using the formula given below:	
WACC = Weightage of Equity * Cost of Equity + Weightage of Debt * Cost of Debt * (1 - Tax Rate)	
WACC	**7.16%**

Calculation of Weightage Average Cost of Capital of M&S, 2024	
Element	**Value (m)**
Total Debt	£ 3,133.20
Total Equity	£ 2,830.10
Interest Expenses	£ 188.40
Tax Rate	37%
Total Capital	£5,963.30
Weightage of Debt	£ 0.53
Cost of Debt	6.01%
Weightage of Equity	£ 0.47
Cost of Equity/ CAPM	6.66%
WACC is calculated using the formula given below:	
WACC = Weightage of Equity * Cost of Equity + Weightage of Debt * Cost of Debt * (1 - Tax Rate)	
WACC	**5.15%**

Student number:

Nottingham Business School
Nottingham Trent University

Appendix 3: FCFF

Free Cash Flow (FCFF) of TESCO				
	2025	**2026**	**2027**	**2028**
EBIT	£ 2,289.00	£ 1,498.94	£ 981.57	£ 642.78
Tax Rate	32%	32%	32%	32%
EBIT * (1-Tax Rate)	£ 1,556.52	£ 1,019.28	£ 667.47	£ 437.09
Add: Depreciation	£ 901.89	£ 904.80	£ 907.71	£ 910.63
Less: increase in Working Capital	£ 5,267.21	£ 5,553.13	£ 5,854.58	£ 6,172.40
Add: Decrease in Capex & WIP	£ 1,488.93	£ 1,475.97	£ 1,463.13	£ 1,450.40
Free Cash Flow to Firm	£ (1,319.86)	£(2,153.08)	£(2,816.27)	£(3,374.28)
Terminal Growth Value				- $5,301.78
		-63.13%	-30.80%	-19.81%
Terminal Growth Rate	**- 37.91%**			
Present Value of Explicit FCFF	**- £7,953.84**			

Number of Years	**2025**	**2026**	**2027**	**2028**
Discount Factor (10%)	0.907	0.822	0.746	0.676
PV to FCFF	£ (1,197.12)	£(1,769.84)	£(2,100.94)	£(2,281.01)
Terminal Growth Value				£(3,584.01)

Enterprise Value	£18,884.00
Less: Total Debt	£ 7,219.00
Add: Cash	£ 2,340.00

Student number:

Equity Value	£14,005.00
Share Capital	£ 445.00
Face Value	1
No. of Shares	44500000
Share Price	**£ 31.47**

SELL

Free Cash Flow (FCFF) of M&S				
	2025	**2026**	**2027**	**2028**
EBIT	£ 475.70	£ 476.61	£ 477.53	£ 478.45
Tax Rate	37%	37%	37%	37%
EBIT * (1-Tax Rate)	£ 299.69	£ 300.27	£ 300.84	£ 301.42
Add: Depreciation	£ 5,079.26	£ 5,211.68	£ 5,347.55	£ 5,486.96
Less: increase in Working Capital	£ 589.64	£ 630.54	£ 674.27	£ 721.04
Less: Increase in Capex & WIP	£ 912.87	£ 947.19	£ 982.79	£ 1,019.73
Free Cash Flow to Firm	£ 3,876.43	£ 3,934.22	£ 3,991.33	£ 4,047.61
Terminal Growth Value				$81,800.00
Terminal Growth Rate	**-1.45%**	-1.49%	-1.45%	-1.41%
Present Value of Explicit FCFF	**£13,989.09**			

Number of Years	**2025**	**2026**	**2027**	**2028**
Discount Factor (10%)	0.907	0.822	0.746	0.676
PV to FCFF	£ 3,515.92	£ 3,233.93	£ 2,977.53	£ 2,736.19
Terminal Growth Value				£55,296.80

Enterprise Value	£ 5,963.30

Student number:

Less: Total Debt	£ 3,133.20	
Add: Cash	£ 1,022.40	
Equity Value	£ 3,852.50	
Share Capital	£ 20.50	From 2024 Annual Report
Face Value	1	
No. of Shares	205000000	
Share Price	**£ 187.93**	**HOLD**

Student number: