# Master in Business Administration (MBA)

**Financial Management - Group Assignment**

## OUTLINE

You are required to submit a group paper that is expected to be approximately 4.000 words in length. This will count for 30% of the total mark for the class.

## AIM OF THE PAPER

The aim of the paper is to familiarise you with the financial reports that are published by companies with the purpose to provide information to interested users of financial information. It is intended that you interpret the information from the financial statements and other reports that might be included in the annual accounts as well as from other announcements that companies make from time to time.

## INTRODUCTION

As the project manager of a European - based (Agrifood or otherwise) company that is quoted on the Athens Stock Exchange, you report to the finance director. The company is considering making a takeover bid for another listed entity in the same line of business in the same or some other international or EU Exchange and the Finance Director has asked you to prepare the initial evaluation of the target company for consideration by the Board of Directors. At present you have no access to the target company beyond information available in the public domain and so the starting point will be the annual accounts of the company available on its website.

**SELECT A TARGET COMPANY** and one other company in the same industry as a BENCHMARK

You have to select both a target company and a benchmark company that are listed on a EU or international Exchange, but you should avoid companies that are any kind of financial institutions (since they have a different setup of assets from manufacturing, trading and service companies). They must also not be a subsidiary of another company. Avoid thus companies that have been involved in a major takeover or disposal during the period that you are investigating. It is likely that there will be some changes that will have occurred in most companies but do not choose one if the change is substantial. In addition, do not select a company that has made a loss during the examined period. The companies must be comparable, NB Greggs and Sainsburys for example that are listed in the London Stock Exchange are not comparable, Rolls Royce and GE are not suitable as GE is a US company (take care when selecting your company).

Ensure that the information that you will need is shown in the annual accounts as some companies disclose more than others. Also, check that the target and benchmark companies are comparable (companies in the same sector are not always comparable as they may do very different things; as noted above Greggs sells sandwiches and hot snacks in high street locations, Sainsburys are supermarkets which also have banks). It is unlikely that you will find a benchmark company that is an exact match with the target entity, but you should read the annual reports of both companies to ensure they do similar things.

## SOURCES OF INFORMATION

Your main source of information is the annual report which will be available on the companies’ website. The company website may have more information in the section for “investor relations”. You may wish to use other reference sources that are available on the University library website. Give clear reference to all sources used and numbered footnote references should be included in the text of your report.

## OUTLINE OF REPORT

Your report is expected to be 4.000 words in length (excluding tables and references). As a guideline, it is suggested that the report should contain the following sections:

## Introduction (400 words) - (5 marks)

The nature of the business of the target and benchmark companies and relevant information of the industry.

This information should be available in the annual accounts and a five-year summary in the annual report should be the starting point. There will be additional information available online. Issues, such as the trends in growth of sales and profits, profitability and any other key indicators for this company should be included in this part of the report.

## Performance (500 words) - (10 marks)

How has the target company performed over the last three years? This should be a broad overview of the performance and the threats and opportunities that the company has faced and any opportunities that the management have been able to identify.

## Ratio analysis (table plus 1700 words)

Prepare a table of ratios for a three-year period and show the calculations of the ratios in an appendix. Include a summary of the ratios (e.g in charts) in the body of the report. Use in your analysis all (if applicable) or some of the ratios included in the table below. In more detail:

* + Calculate the ratios for the target and benchmark companies. **(15 marks)**
  + Discuss the possible causes and effects of changes in the ratios that you have calculated. **(20 marks)**
  + Discuss the ratio calculations for the target company with those of the benchmark entity. **(20 marks)**

## Table of Ratios that could be used for the analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Current year** | *Working calculations* | **Previous years** | *Working calculations* |
| **Profitability ratios:** |  |  |  |  |
| Return on Capital Employed |  |  |  |  |
| Return on Shareholders Funds  (also called Return on Equity) |  |  |  |  |
| Net Profit Percentage (based on profit after  interest and tax) |  |  |  |  |
| Gross Profit Percentage |  |  |  |  |
| Operating Profit Percentage |  |  |  |  |
| **Liquidity Ratios:** |  |  |  |  |
| Current Ratio |  |  |  |  |
| Quick Ratio (Acid Test) |  |  |  |  |
| **Efficiency Ratios:** |  |  |  |  |
| Stock Holding Period (days) |  |  |  |  |
| Debtors Payment Period  (days) |  |  |  |  |
| Creditors Payment Period (days) |  |  |  |  |
| Cash Conversion Cycle  (days) |  |  |  |  |
| **Financial Structure:** |  |  |  |  |
| Gearing |  |  |  |  |
| Interest Cover |  |  |  |  |
| Price/Earnings ratio (year end) |  |  |  |  |
| Dividend yield (year end) |  |  |  |  |

1. **Cash flow (350 words) - (5 marks)**

From the cash flow statement, what are the main aspects of the cash flow position of the target company? How does this fit in with the picture that you obtained from the section that looked at the strategy and forward planning and also the ratio analysis.

## Non-financial performance indicators (450 words) - (10 marks)

Does the target company provide any form of non-financial performance indicators?

## Conclusion and Recommendations (600 words) - (15 marks)

1. What steps should be taken to improve the performance of the target company?
2. What is the current financial position of the target company?
3. Is the target company viewed favourably by financial markets?

## SOURCES

Provide complete references for all bibliographical sources used. Give a brief reference (Authors(s), Year of Publication) at the point where the source information is used, and a full reference in a ‘References’ list at the end of your report. The standard expected is such that another person, reading your references, could find the relevant source material(s). Not many references are expected for this paper as much of it is based on your own calculations and discussion.

## WARNING

It is possible that company websites use different ratios, do not try and work out how they have calculated these ratios just use the formulae provided in the lecture material.

## OTHER SOURCES OF DATA

The share market price, P/E multiples and Dividend information are available from the financial press (e.g. *Financial Times)* daily share listing.